Aspects of Fiscal Federalism and Social Welfare

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PREFACE

This paper is concerned with public finance and social welfare in Australia. Its purpose first of all, is to explore the background of public finance issues, giving the overall context of social welfare finance in our federal system. Second it examines the methods used by the Commonwealth Grants Commission and the implications of these methods in determining relativities among the States in the distribution process of federal funds. Third it examines methods of assessing social welfare need and social welfare expenditures in the States. Fourth it shows how the structure and pattern of federal grants has changed over the past decade. The data reported here allow comparison between the States on a reasonably standard basis, and show some interesting results in the levels of distribution of social service and social welfare expenditures.

The politics of federalism sees shifts, over time, in the balance between control and decision making at the centre, and control and decision making at the periphery. Responsibility for community well-being is caught up in the politics of federalism. When translated into social welfare provision, issues of public finance are every bit as important as ideological issues relating to needs, rights, and shares. Expenditures by governments relate closely to perceptions and measures of need within the community generally, and within jurisdictional boundaries. Over time in Australia we have seen attempts to measure need and translate this into revenue grants. The process in recent years has been to identify need according to pre-determined factors, and allocate funds to the States on the basis of need. Of course, it is not so simple, and this report takes up some of the measurement issues. An area of controversy relates to whether expenditure patterns in the States should be as similar as possible, so as to bring about a national unity, or whether patterns should vary to reflect the essence of a federation.

In Australia the Commonwealth government collects 81% of Australian taxation revenue. Approximately one third of Commonwealth revenues go to the States according to complex formulae tempered both by rational measurement methods and political pragmatism. The States raise revenue through a variety of taxes and charges, though in both Commonwealth and State arenas the tax base is both concentrated and shrinking. Opportunities for expansion depend on tough political decisions at both levels. To what extent should States be dependent on the Commonwealth, and if dependent, dependent for what? For example in 1981-82 Victoria and New South Wales both raised about 40% of their revenues by way of State taxes and charges, and received 60% from the Commonwealth. Queensland, South Australia and Western Australia raised on average around 25% while in Tasmania only 20% was raised internally. Is that fair? Should it continue?

There is no doubt that widely varying views are held in the various governments about the relationship with other levels of government, and about autonomy, dependency, and distribution and expenditure patterns. Commonwealth grants to the States as recommended by the Grants Commission are not provided so that the States must provide specified services, but rather that the States would find it within their financial capacity to provide certain services, should they choose to do so. As the Commission pointed out, "it would clearly be inconsistent with the general principle of financial need for the Commission's procedures to enable a State to provide social services at a different standard from that of other States if it did not also accept the responsibility for financing any above-standard element of the services from its own resources or retain for itself the financial benefit arising from any below-standard services" (Commonwealth Grants Commission, 1982a: 95).

Social services (broadly defined) involve a major cash flow in Australian society. Annual social welfare expenditure, (a small part only of the States' social services expenditures, but a large proportion of Commonwealth expenditures) for 1982-83 alone, would buy BHP, CRA, MIM, Westpac, CSR, Comalco and the ANZ Banking Group, and there would still be some change. In this paper we are certainly not dealing with trifling matters. We have attempted to look at broad issues of public finance, and relate these to social welfare.

Chapter 1 outlines the roles and responsibilities of the Commonwealth and State governments in providing and funding social welfare. Chapter 2 deals with the role and methods of the Commonwealth Grants Commission review of tax sharing and its analysis of relative needs and costs in social welfare. Chapter 3 uses the standard budgets worked out by the Commonwealth Grants Commission to shed light on the relative levels and structures of social welfare expenditure in the States. Chapter 4 examines how financial arrangements have changed in the past decade, and how the taxation structure has had an impact on State finances and services.

I

SOCIAL WELFARE IN FEDERAL CONTEXT

THE DELIVERY AND FINANCING OF SOCIAL WELFARE

"Social Welfare" is a broad term which describes systems of allocations in any society in which resources are distributed to individuals and communities so that they might attain a certain standing of living and/or quality of life. This structure of benefits and their distribution is an intensely political predicament, for there is often great disagreement about why anything should be allocated, what it is that is allocated, who the recipients ought to be, how generous the allocation ought to be, who should do the allocating, and how it might be financed.

Arguments about the financing of welfare are long standing. There is the argument whether (and the extent to which) welfare should be provided through the family and the market on the one hand, or through the public sector on the other. This argument is not the focus of the current paper. What will be pursued here is a description and discussion of the way in which public finance impacts upon welfare and the way in which it has sought to bring welfare into the public finance distributions. Essentially these are arguments about federalism, the share of responsibilities and finance among the various levels of government (and between States) and their willingness and capacity to provide and finance welfare support and services.

When the Australian Constitution was drawn up the only social welfare provision was in Section 51 (xxiii) which stated that the Federal Parliament could legislate on matters relating to "invalid and old-age pensions". Since then Commonwealth involvement and social welfare benefits and expenditures have increased dramatically so that by 1982-83 the Commonwealth Government was allocating $13.2 billion to Social Security and Welfare, 28.2% of estimated budget outlays. In addition there are outlays in other areas of social services — health, education, housing, culture and recreation, all of which contribute to social well being and, together with Social Security, account for roughly 46% of Commonwealth outlays. A further 23% of Commonwealth outlays goes in direct payments to State and Local Governments, which in turn finance broadly defined social services (health, housing, welfare, education, community services etc.), with State Governments spending approximately half of their budgets on these items. Local Government expenditure in these areas varies considerably from council to council, and State to State.

In addition to the three levels of government, welfare services are provided by something which can loosely be described as the non-government welfare sector (sometimes referred to as the "voluntary sector"). Non-government welfare organisations (NGWOs) are the subject of a special study at the Social Welfare Research Centre. Somewhere in the order of 37,000 NGWOs have been identified in Australia and a preliminary classification shows involvement in at least 12 major types of activities: income support; accommodation services; employment generation; educational support; health promotion; personal care; protection; therapeutic care; information services; inter-personal development; collective action; and service support.

Any understanding of welfare transfers would be incomplete without taking into account those benefits (of a service nature as well as income-in-kind) which are attached to certain occupations. "Occupational welfare" includes fringe benefits such as superannuation, housing assistance, company cars, expense accounts etc, which come within the definition contained in the first paragraph of this chapter. These items were estimated to cost taxpayers between $7 and $14 billion dollars in 1980-81 (Jamrozik, Hoey and Leeds, 1983 : 67).

Notwithstanding the importance of Local Government, NGWOs, occupational welfare, and the social welfare and social service roles of the commercial profit making sector and the informal system of service and support, this monograph will concentrate only on social welfare roles of the Commonwealth and State governments.

The Commonwealth

In addition to indirect expenditures through taxation concessions (occupational welfare), Commonwealth Government expenditure on social welfare can be classified under three general headings:

1. *Direct expenditure under a clear constitutional power.* Funds are paid directly to recipients as specified in the Constitution and these funds are not filtered through the States.

2. *Expenditure through the States, mostly under Section 96 of the Constitution.* This provides that the Parliament may grant financial assistance to any State on such terms and conditions as the Parliament thinks fit.

3. *Direct expenditure not within a clear constitutional power.* This includes direct expenditure that bypasses the States, for example, payments to local government, community groups, non-statutory welfare agencies, and so on.

Our federal history has been filled with arguments, both in the courts and in the political arena, about the boundaries and limits of these sets of expenditure powers and practices. Although the Constitution originally provided only for invalid and old-age pensions, the Commonwealth Parliament passed legislation in 1912 authorizing it to make a payment to a mother upon the birth of a child. There were doubts about whether the maternity allowances offended under Section 81, which gives Parliament power to appropriate funds "for the purposes of the Commonwealth in the manner and subject to the charges and liabilities imposed by this Constitution". The debate raged over whether the payment of maternity allowances was for "the purposes of the Commonwealth ...". Although the payment of maternity allowances was never ruled unconstitutional, the issue of Commonwealth power in welfare was not fully resolved, and came to the fore again in the 1940s with the Labor government's innovations in social welfare. The Pharmaceutical Benefits Case, 1945, (in which the issue related to the extent of the role of the Commonwealth in health) was argued on Section 81.

The Constituional amendment of 1946 (Section 51, xxiia) sought to overcome doubts about what were the "purposes of the Commonwealth" with regard to welfare. The amendment gave the Commonwealth the power to legislate in regard to eleven kinds of allowances, benefits, and pensions. It clearly established the Commonwealth as the major income security provider, and it also gave the Commonwealth the ability to provide benefits in kind, that is, services, something previously regarded as quite beyond the Commonwealth's scope.

Benefits to replace or supplement income are paid to mothers (family allowances) and people who are old, or disabled, or sick, or unemployed, or who are veterans, or widows or single parents. There are various forms of special assistance, supplementary benefits, funeral allowances, handicapped children's allowance, orphans pensions, etc. All of these are benefits paid by the Commonwealth directly to recipients. In addition the Commonwealth supports programs relating to migrant welfare, family planning, domiciliary care, meals on wheels, sheltered accommodation, aged person's homes, homeless persons, women's refuges, and accommodation for the handicapped. There are also community programs relating to leisure, youth activities, children's services, etc. Through the taxation system's deductions, concessions or rebates have been or are available for dependent spouses, dependent children, health expenditures, insurance expenditures and so on.

Under Section 96 of the Constitution the Commonwealth provides both grants and subsidies to fund items such as home care services, child care, senior citizens' centres, paramedical services and other programs. Over time the relative importance of Section 96 grants as overall allocations has fluctuated and, when high, has made the States nervous or hostile as they saw a relative increase in Section 96 allocation as a limitation on their autonomy and innovative ability. There is a degree of party political conflict in this, as the relative growth in Section 96 grants took place under a Federal Labor Government when a majority of States had Liberal-NCP governments. However the most important source of conflict is in the division of power between the levels of government. The Commonwealth is undoubtedly gaining in influence and power, particularly through the centralisation of finance, and through such things as the wider interpretation of its constitutional power as reflected in the Franklin Dam Case. The structure of current responsibilities and power will be dealt with in this chapter, and the changes over time are discussed in Chapter 4.

Direct expenditures not within a clear constitutional power caused controversy during the Whitlam years. This was of a very partisan nature, for there had been little controversy in the past over some of the traditional grants to local government and voluntary agencies. Payments had been made under the Aged or Disabled Persons' Homes Act, the Delivered Meals Subsidy Act, the Sheltered Employment Assistance Act, the Handicapped Persons Assistance Act, the Homeless Persons Assistance Act, and others, which provided funds to local government and other non-profit bodies in order that they might provide the services required by these Acts.

Commonwealth income forgone through the taxation system (which has been described both as taxation expenditures and fiscal welfare) has received scant attention compared with direct budget expenditures. A 1982 Report on Taxation Expenditures compiled by the House of Representatives Expenditure

Committee gives some indication of the size of these expenditures. Working on items which comprise about 65% of the total, the Report (1982: 11) estimated tax expenditure costs at around $6 billion, or 15% of Budget outlays for 1981-82. The estimate for social security and welfare was $1.32 billion, of which the dependent spouse rebate was $900 million. Also of relevance to social security with respect to income support is superannuation for which Treasury estimates were $1.72 billion and Department of Social Security estimates $2.52 billion.

The States

The State governments provide a wide range of services in the areas of child welfare, family support services and probation and parole, among other things. They are also the main service providers in education, public housing and hospital and nursing services. They also supply funds or support to NGWOs to provide a range of personal social services, casework and family support services and cash relief in kind to those in emergency situations.

State Government welfare departments see themselves, in the words of one such Department, as "promoting the general well-being of the community, encouraging the welfare of the family as the basis of community welfare, promoting co-ordination of services and collaboration among various agencies and promoting research, education and training in community welfare". This is done through a network of district offices which provide personal support services to the young and the old, and to families. Much of the Departments' work is concerned with the care and supervision of children. They run children's homes and treatment centres for young offenders, as well as non-residential facilities.

State Governments also licence foster parents and private children's homes, organise and administer adoptions, provide budget advice, family counselling, rental assistance, emergency financial assistance, and assist in a range of community support services. For example, the New South Wales Department of Youth and Community Services lists five program areas: care and development of children (44% of budget, 38% of staff); Youth, Family and Aged (24% of budget, 32% of staff); Emergency Assistance (15% of budget, 9% of staff); Community Development (5% of budget, 2% of staff); Services for the Handicapped (4% of budget, 5% of staff); and Administration (8% of budget, 15% of staff). (N.S.W. Budget Paper No.2, 1982-83).

As the social welfare industry is one of the largest industries in Australia careful attention needs to be paid to the political processes that shape its allocative methods and ultimate outcomes. These of course are moulded by ideological viewpoints, demographic and social characteristics of populations, the policy suggestions and advocacy of a host of organisations and individuals, and not least economics. Intimately related are questions of the respective roles of the various levels of government. This role determination has both an ideological and administrative dimension.

Historically the Federal Government has played a limited role in Australian social policy. The extent of that role was consistent with the ideological support for a federalism which allowed the States to develop programs to meet conditions peculiar to each State. This approach also tries to limit the role of Federal Government as "big government".

The American economist Alice Rivlin has written about administrative issues. Two activities that Federal Governments do efficiently, she says, are collecting taxes and writing cheques. "Since the Federal Government is good at collecting and handing out money, but inept at administering service programs, then it might make sense to restrict its role in social action mainly to tax collection and writing cheques and leave the detailed administraiton of social action programs to smaller units." (1971: 125).

Attempts at social and program innovation by the Commonwealth Government have always caused tension in the States, though a tension peak was probably reached between 1973 and 1975 when the Whitlam Government tried to introduce programs such as the Community Health Program, the Australian Assistance Plan, Medibank, the Area Improvement Program, the Disadvantaged Schools Program, the Legal Aid programs etc. These and the reaction by the subsequent Fraser government highlighted issues of the appropriate balance between the levels of government in social service planning and delivery. In very general terms the Commonwealth has been seen in social welfare, primarily as a provider of cash to individuals and finance to States and NGWOs, while the States have been seen as service providers. (Data reported at the end of Chapter 3 below show that the States do provide a significant income support role).

Financial Overview

To give some indication of the broad level of social welfare expenditures in 1981-82 Commonwealth direct expenditures were $11,498 million (of which over

90% were personal benefit payments; Budget Paper No.1, 1982-83 : 291), taxation expenditures were, excluding superannuation, at least $1,320 million and with superannuation at least in the range $3,040 to $3840 million. On top of this the loss to revenue of occupational welfare and fringe benefits is estimated to lie in the range $7,700 to $15,400 million. There is, however, some double counting in the last two areas.

For the States, 1980-81 estimates from the standard budgets prepared by the Commonwealth Grants Commission (see Chapters 2 and 3) give State expenditure on narrowly defined social welfare as $408 million. (Adjusting this for the authors' estimates of $18 million worth of Commonwealth specific grants and approximately $42 million of welfare transport concessions, and assuming uniform inflation of 10%, gives an estimate in the region of $475 million).

On top of these expenditures are those by Local Government, financed from rates and Commonwealth grants (estimate not readily available), and NGWOs, estimated by the SWRC to have expenditure well in excess of $1 billion, financed by donations and grants from all levels of government. In both cases great care must be taken to avoid the double counting of transfers from Commonwealth and State Governments. Having noted the broad social welfare functional and financial areas, and having touched on some of the constitutional and political issues, it is important to examine the main areas of public finance in order to place social welfare in a broader perspective.

COMMONWEALTH GOVERNMENT OUTLAYS AND REVENUES

In both absolute and relative terms the Commonwealth is a huge financial entity. In 1981-82 actual expenditures were around $41,300 million and represented approximately 29.2% of the goods and services produced in Australia (i.e. of Gross Domestic Product or G.D.P.; Budget Paper no.1, p.29). For 1982-83 outlays were estimated at the time of the budget to be around $47,100 million, and these estimates are broken down in Table 1.1 to show the broad expenditure patterns.

The concentration in outlays is notable with two items, Social Security benefits ($12,485m.) and general States grants ($10,953m.) accounting for approximately one half of the outlays, and with the addition of health and education, accounting for over two thirds. The second point of note is that the Commonwealth mainly transfers finance rather than spends money directly — only 22% of its budget goes on goods and services with two thirds of this being for the public service and defence. Over a third (34%) goes to other levels of government, and about the same (32.8%) goes in payments to individuals — mostly for pensions or benefits or health care. The magnitude and ranking of expenditure functions can be determined from Table 1.1.

There are important structural implications of this expenditure pattern. One third goes in personal benefit payments, and politically government is locked into support at this level, for it cannot allow benefits to fall behind inflation, nor can it deny benefits to those unable to obtain income in the marketplace. At each Premiers Conference the State Premiers complain bitterly that they do not get a satisfactory deal from the Commonwealth, and so there is little room for manoeuvre here. In addition the high wage component in many outlays must be noted and all of these factors in combination, imply inbuilt growth in Commonwealth expenditures. These growths are extremely difficult to control.

Table 1.2 lists sources of Government revenue, and the concentration here is even more marked than it is in the outlay table. (1981-82 data are used because these were the latest actual figures available at the time of writing; revenue estimates are not always achieved, particularly in recessionary times.) 70% of Commonwealth revenue comes from income taxes, and this together with excise duties for crude oil and liquid petroleum gas accounts for over three quarters of Commonwealth revenue. This is a cause of great concern because the oil and gas excise is not assured, and because income tax collections are in chaos. The recent literature has demonstrated how the income tax burden has moved, in the last decade, away from business, property, and professional income to income from wages and salaries. (See for example, Mathews 1980; Mathews 1982; Harding 1982; Keens and Cass 1983).

TABLE 1.1

COMMONWEALTH BUDGET OUTLAYS BY FUNCTION AND ECONOMIC TYPE

1982-83 (estimates)

	Expenditure Goods and Services		Personal Benefit Payments	Other Transfer Payments	Grants and Net Advances to or for States and Local Government Authorities	Net Advances to Other Sectors	Total Outlays	Total Outlays
	Current	Capital						
	$m	$m	$m	$m	$m	$m	$m	%
Defence	4 257		294	63	9		4 622	9.8
Education	359	17	288	3	3 125		3 792	8.1
Health	781	32	2 334	10	222		3 379	7.2
Social Security and Welfare	522	7	12 485	102	104	52	13 272	28.2
Housing	- 1	6		148	298	120	571	1.2
Urban and Regional Development nec and the Environment	45	9		10	48	1	113	0.2
Culture and Recreation	442	42		3	14		501	1.1
Economic Services	727	202	41	966	1 226	59	3 221	6.8
General Public Services	2 184	252	5	687	1	62	3 189	6.8
Not allocated to Function	210			3 243	10 953		14 406	30.6
TOTAL OUTLAYS	9 524	568	15 447	5 236	15 999	294	47 067	
Per cent	20.2	1.2	32.8	11.1	34.0	0.6		100.00

Note: Columns may not add due to rounding.

Source: Commonwealth Budget Papers No.1, 1982-83, p.8.

TABLE 1.2

REVENUE BY TYPE OF TAX AND LEVEL OF GOVERNMENT, 1981-82.

	Commonwealth $m	State $m	Local Authorities $m	Total $m	Per cent %
Income Taxes -					
Individuals	21224.3	-	-	21224.3	45.3
Companies	5214.7	-	-	5214.7	11.1
Estate, Gift, Probate and Succession	4.4	134.2	-	138.6	0.3
Customs Duty	2156.6	-	-	2156.6	4.6
Excise Duty -					
Crude Oil and LPG	3163.3	-	-	3163.3	6.7
Other	2830.5	-	-	2830.5	6.0
Sales Tax	2854.3	-	-	2854.3	6.1
Primary Production Taxes	234.1	-	-	234.1	0.5
Payroll Tax (1)	16.0	2398.0	-	2414.0	5.1
Property Taxes (1)	20.9	370.1	1718.1	2109.0	4.5
Liquor Taxes (1)	3.5	231.4	-	234.9	0.5
Gambling Taxes	-	727.8	-	729.2	1.6
Motor Vehicle Taxes (1)	10.6	1009.3	0.1	1020.0	2.2
Stamp Duties (1)	10.8	1349.6	-	1360.3	2.9
Other	247.9	882.4	88.3	1217.2	2.6
Total	37991.9	7102.6	1806.5	46901.0	
Per cent	81.0	15.1	3.9		100.0

Note: (1) for the Commonwealth these taxes are only levied in the A.C.T.

Source: Australian Bureau of Statistics, Taxation Revenue: Australia. 1981/82, Cat.No.5506.0, Canberra, April 1983.

STATE GOVERNMENT OUTLAYS AND REVENUES

As State budgets are formulated separately and use different base measures and incorporate different degrees of detail, direct comparisons are not always possible, but the data in Table 1.3 give an indication of relative outlays, expenditures and deficits of the State sector as compared with other levels of government. It is of interest to note that expenditures on goods and services (current) at State level is almost double that for the Commonwealth and when combined with goods and services expenditure of local authorities and non-budget authorities, comprises 70% of total public sector goods and service expenditures. To appreciate the capacity of State governments as service providers it should be noted that the State and Local sectors comprised about 19.8% of G.D.P. in 1981-82. Allowing for Commonwealth finance the figure reduced to 10.3%.

A rough breakdown of State activity by function, using A.B.S. National Accounts data divides current activity in 1980-81 (the latest year available) into education 37%; health 21%; law and order 8%; social security 3%; and economic services together comprising around 4%. Capital, equal to about 42% of current expenditure, divides up very differently. The major components under capital are electricity and gas 26%, roads 19%, remaining economic services 23%, housing 13%, and education 9%. Over half the overall capital in these figures is spent through public trading enterprises rather than the State budget. These figures are not accurate in detail but are merely indicative (Australian Bureau of Statistics, State and Local Government Finance Australia 1980-81, Cat.No.5504.0, Table 3, p.13 and Table 5, p.15).

The transfer payments in Table 1.3 should be treated with caution as grants from the States contain Commonwealth money transferred through the States. Nevertheless it can be seen from Table 1.3 that about 64% of State resources come from the Commonwealth. The States therefore are extremely dependent.

The three main State taxes are Payroll, 34%; Stamp duties, 19%; and Motor vehicle taxes, 14%. Together these form approximately two thirds of tax receipts. Payroll receipts and Commonwealth grants form three quarters of State revenues. The degree of dependence on the Commonwealth is heightened by the fact that all the major State taxes are extremely sensitive to recessionary pressures, hence the current financial plight of the States.

TABLE 1.3

OUTLAYS AND RECEIPTS OF PUBLIC AUTHORITIES, 1981/82

	Common-wealth	State	State non-budget Authorities	Local Authorities	State and Local Authorities	All Public Authorities
	$M	$M	$M	$M	$M	$M
Outlays						
goods and services - current	8708	15131	389	1257	16777	25485
- capital	2164	3440	4140	1728	9308	11472
Total goods and services	11064	18583	4673	2993	26249	37295
Transfer payments						
- personal benefits	13091	327	-	-	327	13418
- to state and local	13181	982	6	54		
Total transfers	31513	3457	1093	438	4169	20755
Total Outlays	43220	22149	4843	3431	29559	56990
Receipts						
- Gross Income of Authorities	2050	- 149	1522	326	1699	3749
- Taxation	37996	6899	200	1811	8909	46905
- Grants from Commonwealth		13154		28	13181	
- State			231	751		
- State non-budget				5		
- Local		11	43			
Total Receipts	42126	20606	2320	3070	25177	52376
Deficit (outlay minus receipts)	1094	1543	2523	361	4382	4614

Notes: (i) Columns may not add across due to transfers between levels of government. Figures are preliminary.
(ii) Totals within columns are greater than sum of items included, as other items have been excluded.

Source: Australian Bureau of Statistics, Government Financial Estimates, Australia 1982/83, Canberra, 1983, Table 8.

Two further points need to be made about general State and local public finance. The first is that the States are even more dependent on the Commonwealth than has so far appeared because their deficits shown in Table 1.3 are for the most part (about 75%) covered by Commonwealth advances. This was highlighted in the negotiations at the June 1983 Premiers Conference with all Premiers asking for more money than the Commonwealth's first offer on the grounds that they would not otherwise be able to cover their deficits. The second point also refers to the deficits in Table 1.3 but in this case to their distribution because, as can be seen, it is the State non-budget authorities which have by far the largest level, accounting for over half of the public sector deficit. Given that these are mostly business undertakings and account for between 40% and 50% of public sector capital outlays, mostly to finance revenue producing assets, means, in the words of Professor Mathews, "that the size of the Australian public sector deficit presents nothing like the major problem for economic stabilisation which is associated with government deficits in many other countries" (Mathews, 1982 : 16).

Having looked at the States in outline we now turn to the inter-state variations. Table 1.4 presents data on aggregate outlays and receipts by State, while Table 1.5 does the same on a per capita basis. It has been the procedure of the Grants Commission since the early 1960s to compare the position of the smaller States (per capita) with that of the average of New South Wales and Victoria (which in any case establishes the Australian average). From Table 1.5 it can be calculated for example that Queensland spends \$162.5 per head more than this standard which amounts to an outlay of \$394 million; collects \$142 per head less than the standard in taxes; but receives \$154 per head more than the standard from the Commonwealth government, which makes total receipts \$93 per head higher than the New South Wales-Victoria average.

South Australia spends about the same as Queensland per capita, but its tax receipts are less (\$165 per capita below the standard). Commonwealth Grants are significantly higher than the standard and those going to Queensland (Standard \$764, Queensland \$924, South Australia \$1,003). As a result South Australian receipts are higher than the standard by \$165 per head. For Western Australia the position is even more favourable with outlays significantly higher, receipts higher, and Commonwealth grants 40% higher than the per capita standard. Tasmania has by far the highest per capita outlays, the second lowest tax receipts, and Commonwealth grants 66.2% above the standard. For the smaller States in each case the Commonwealth "extra" grant more than covers the tax receipt deficiency.

TABLE 1.4

OUTLAYS, RECEIPTS AND DEFICITS OF STATE BUDGETS, 1981/82

	NSW $m	Vic $m	Qld $m	SA $m	WA $m	Tas $m	Six States $M
Outlays							
Goods and services	6045	4639	3120	1724	1834	668	18031
Transfers	1232	845	543	335	297	154	3406
Total outlays	7214	5529	3679	2052	2157	867	21499
Receipts							
Payroll Tax	1016	668	287	168	190	56	2385
Stamp Duties	512	370	248	87	104	24	1345
Motor Taxes	384	271	169	75	85	34	1018
Other	835	743	196	139	158	44	2115
Total Taxes	2747	2052	900	469	537	158	6863
Commonwealth Grants	4028	3081	2204	1330	1423	549	12615
Total Receipts	6723	5219	3309	1935	2096	777	20059
Deficit	491	311	370	116	61	90	1439

Notes:

1. Goods and Services are 'Total net expenditure on goods and services' and include consumption expenditures, new fixed assets and stocks.

   Transfers consist of interest (the largest single item) personal benefit payments, subsidies, grants for private capital to state non-budget authorities and local authorities.

   Outlays will not add because net advances are not included in the table.

2. Total Receipts may not add due to negative interest.

3. Deficit is outlay minus receipts and is financed by Commonwealth advances or 'other'.

Source:

Australian Bureau of Statistics, Government Financial Estimates, Australia 1982-83 (Preliminary), Canberra, 1983. Cat.No.5501.0

TABLE 1.5

PER CAPITA OUTLAYS, RECEIPTS AND DEFICITS OF STATE BUDGETS, 1981-82

	NSW $ per cap	Vic $ per cap	Qld $ per cap	SA $ per cap	WA $ per cap	Tas $ per cap	Six States per cap
Outlays							
Goods and services	1147	1168	1308	1301	1393	1558	
Transfer	234	213	228	253	226	359	
Total outlay	1369	1392	1543	1548	1638	2022	1463
Receipts							
Payroll Tax	193	168	120	127	144	131	162
Stamp Duties	97	93	104	66	79	56	92
Motor Taxes	73	68	71	57	65	79	69
Other	158	187	82	105	120	103	144
Total taxes	521	517	377	354	408	368	467
Commonwealth Grants	764	776	924	1003	1080	1280	585
Total Receipts	1276	1314	1388	1460	1591	1812	1365
Deficit	93	78	155	88	46	210	98
Commonwealth Grants as a percentage of total receipts	60	60	67	69	68	71	63

Notes:

1. 1981-82 preliminary, Source ABS Government Financial Estimates, Australia 1982-83, ABS 5501.0. Table 9 following

2. Goods and Services are 'Total net expenditure on goods and services' and include consumption expenditures, new fixed assets and stocks.

   Transfers consist of interest (the largest single item) personal benefit payments, subsidies, grants for private capital to state non-budget authorities and local authorities.

   Outlays will not add because net advances are not included in the table.

3. Total Receipts may not add due to negative interest.

4. Deficit is outlay minus receipts and is financed by Commonwealth advances or 'other'.

The breakdown of State receipts into taxes and grants is summarised in Table 1.6. This highlights the huge range from the 20.3% of revenue raised internally by Tasmania to the 41% raised internally by New South Wales. The division falls into three groupings: New South Wales and Victoria, have around 40% in State taxes; Queensland, South Australia and Western Australia have around one quarter; and Tasmania has 20%.

It must be pointed out that per capita expenditure needs and tax bases among the states are not always comparable due to factors such as economies of scale (with presumably lower average costs in the large States). Dispersion and population factors are also important, as dispersed populations are costly to serve, as are higher proportions of high-risk troups. Issues of size affect the revenue base for taxes, but the base is also affected by the types and levels of taxes levied (policy matters). It is precisely these effects and costs which were the focus of the Commonwealth Grants Commission inquiries and to which we turn our attention in later chapters.

TABLE 1.6

PERCENTAGE OF STATE RECEIPTS FROM STATE TAXATION AND FROM COMMONWEALTH GRANTS, 1981-82

	Percentage of State Receipts from	
	State Taxation	Commonwealth Grants
	%	%
NSW	40.9	59.9
Vic	39.3	59.0
Qld	27.2	66.6
SA	24.2	68.7
WA	25.6	67.9
Tas	20.3	70.7
Six States	34.2	62.9
Average of NSW and Vic	40.2	59.5

Note: Percentages may not add due to balancing items such as interest, etc., rounding or to different levels of deficit.

Source: Australian Bureau of Statistics Government Financial Estimates, Australia, 1982-83 (Preliminary), Canberra, 1983, Cat.5501.0

BACKGROUND TO COMMONWEALTH-STATE FINANCIAL ARRANGEMENTS

Federalism in Australia was built on a foundation of the States giving limited and carefully considered powers to the Commonwealth. In return for this slice of sovereignty, the States were to receive funds from the Commonwealth, and from the earliest days there have been mechanisms for transferring "surplus" Commonwealth funds to the States. In the beginning the surplus funds came from customs and excise duties and over time the concepts and formulae used to determine the nature and method of the distribution have varied both in method and rationality, and have usually been tempered by expediency. Matters of fiscal allocation have always been hotly debated, and regular and predictable confrontations at Premiers Conferences give this long-standing dispute contemporary currency.

The original Federal agreement required that under Section 87 of the Constitution the Commonwealth pay to the States at least three quarters of the revenue raised through customs and excise. Sections 89, 93 and 94 provided for regular payments to the States of "all surplus revenue of the Commonwealth". These were meant as transition payments and continued for most of the first decade.

The Surplus Revenue Act (1910) provided a more systematic basis of payment to the States than that of Section 87 and thus began the tradition of per capita payments to the States. At that time a per capita payment of 25 shillings was introduced, and this continued until 1926-27. In addition "Special Grants" were made to Western Australia and Tasmania, commencing respectively in 1910-11 and 1912-13, with South Australia starting to receive them in 1929-30. In 1927 a Financial Agreement between the Commonwealth and the States established the Australian Loan Council to control borrowing (defence borrowing was excluded) and in 1936 semi-government and local authority loans were included in these arrangements.

In the early 1930s there was a crisis in the Australian financial system. The effects of the Depression were being widely felt, and Western Australia had recorded a very strong pro-secession vote. Against this backdrop the Commonwealth Grants Commission (hereafter referred to as the Grants Commission or the C.G.C.) was established in 1933.

The Commission was required to address the increasing level of Special Grants (as opposed to General Revenue Grants) which were being made under

Section 96 of the Constitution to Western Australia, Tasmania and South Australia. The grants were made to the States at the time because of their financial need and the rationale was expressed in the Third Report of the Commission (1936, p.75):

> "Special grants are justified when a State through financial stress from any cause is unable efficiently to discharge its function as a member of the Federation and should be determined by the amount of help found necessary to make it possible for that State by reasonable effort to function at a standard not appreciably below that of other states."

The principle followed was one of fiscal capacity equalisation, with the poorer States receiving grants judged on their relationship to the fiscal capacity of New South Wales, Victoria and (until 1959-60) Queensland. According to Russell Mathews (1982 : 2) fiscal equalisation arrangements resolved potential major constitutional crises in Australia relating both to vertical fiscal imbalance (Commonwealth dominance vis à vis the States) and horizontal fiscal imbalance (financial weakness of the least populous States). The Grants Commission was to provide a systematic basis for fiscal equalisation, ensuring that all States "would be able to provide comparable services so long as they imposed comparable taxes and charges". The use of this principle, and the subsequent work of the Grants Commission meant that Australia developed the most sophisticated arrangements of any federal system.

Income Taxation and the Power of the Commonwealth

The dominance of the States which prevailed in 1901 has been replaced over time by the dominance of the Commonwealth. Legislation introduced by the Commonwealth on July 1 1942 which provided for the Commonwealth to levy uniform income tax, has been the main cause of a realignment of State and Federal powers. The States had previously levied income tax at differing rates, and they were adamantly opposed to the Commonwealth taking over income tax powers. For the Commonwealth to raise sorely needed wartime revenue it would have had to impose a levy on existing taxes, and this would have meant sharp differences in taxation levels and incidence among the States and a subsequent loss of potential revenue in the low-tax States.

Failing to reach agreement with the States the Commonwealth acted unilaterally with arrangements which were to apply for the duration of the war plus one year. The States had no option but to cede income tax powers following an unsuccessful challenge to the Commonwealth in the High Court. The Commonwealth Government introduced a national uniform tax on income and also promised compensation to each State which did not levy its own income tax. The basis of compensation was a (Section 96) grant to each State equal to its average income tax collections in the years 1939-40 and 1940-41. The tax reimbursement grants therefore replaced income tax collections in State budgets.

Western Australia, South Australia and Tasmania continued to apply for and receive special grants, and the way was open for any State to apply for supplementary grants through the Grants Commission. As the Commonwealth tax reimbursement grants replaced State income tax collections in their budgets, the States effectively became dependent on the Commonwealth. Wilfred Prest commented that this was "the fundamental imbalance in the Australian Federal system, arising from the Commonwealth's excess of revenue over its own expenditure needs, and the corresponding shortfall in the revenue of the States"(Prest, 1977 : 57).

In 1946 the Commonwealth decided not to return income taxing powers to the States. It advised that the new arrangement would provide for grants to each State based on a number of factors which included population size, population density and dispersion, numbers of children aged between 5 and 15, growth in population over the previous year and increase in the average wage per employed person. Three points need to be noted about these new arrangements.

First, it was the Commonwealth which declared the arrangements, and the States once again had no choice but to accept. Second the size of the grants was based on notional movements in indicators set by the Commonwealth. Third the basis of distribution was no longer one of compensating States for forgone revenues, but rather one of using population size when adjusted for the factors mentioned above, a step towards general grants based on relative financial need.

In 1959 there was another adjustment to the method of allocation. A formula was introduced for increasing total grants at such a level so as to avoid the need for large scale supplementary grants (both Victoria and Queensland had applied for supplementary grants similar to those received by the three smallest States). The revision took the form of an introduction of a ten per cent "betterment factor" on top of average wage increases; for example if real wages rose 5%, this was increased by a betterment margin of 10% and included in the formula to allow for some measure of real growth in grants. This structure of grants remained more or less unchanged until a major review initiated in the mid 1970s, although there were some adjustments resulting from the Commonwealth takeover of tertiary education, some State railways, and the assumption of payroll tax by the States in 1971. Overshadowing these adjustments was a greatly heightened practice of bargaining, either by individual States with the Commonwealth, or coalitions of States with the Commonwealth. Partisan issues sometimes, but not always, came to the fore, with State Governments occasionally hoping for better access and better deals when of the same political party as the Commonwealth government.

After 1959 the distribution of grants favoured the four smaller States at the expense of the two States with highest income tax capacity, New South Wales and Victoria. Although the latter were unhappy with the changes, the other States began to look with less favour on the reintroduction of State income tax responsibility, and instead pushed for a link between the level of grants and that of income tax collections thus giving them access to funds without the opprobrium of collecting them. In 1970 when all States became disatisfied with the level of grants they joined forces to push for access to a proportion of income taxation. The Commonwealth refused and the States quickly accepted a counter offer of a rise in both the grant base and in the rate of growth.

The Whitlam Years 1973-75

During the Whitlam years the charge of extreme centralism in Federal-State matters was continually levelled. There was certainly an increase in the Commonwealth's level of involvement, but not a change in direction from the pattern established by the Whitlam government's predecessors. Policy initiatives in this period rested on two methods.

First there was the use of specific purpose grants, and these more than quadrupled. They involved activities as diverse as a large increase in funding for activities such as health and hospital services and urban and regional planning; total Commonwealth funding (certain areas of education); and Commonwealth assumption of control, for example of Tasmanian and South Australian non-urban railways. General grants were reduced to take account of these increased specific grants, although both grew at historically very high rates. The second method was the funding of local and regional organisations, a major policy shift, but outside the ambit of this paper.

There was a great deal of resentment and resistance by the States to these moves into new functional areas, and despite the devolution of equalisation finance to local authorities, denunciations of centralism and affirmation of States rights became a recurring theme in the Federal symphony. In 1975 the States asked for a 60% growth in financial assistance. (This was against a backdrop of large income tax revenue increases, wage increases of the order of 27% in the year to March 1975, and tax revenue growth likely to be almost double that — Mathews 1977 : 47). The Commonwealth rejected the States' attempt to be part of this tax explosion, but it did increase substantially the pool of grants, and raised the betterment factor from 1.8 to 3.0%, thus resulting in a rise of around 30%.

The level of hostility to the Whitlam government, as expressed by the non-Labor States, mounted exponentially, and Federal-State relations were crucial in the fall of the Government. Two of the non-Labor States appointed non-Labor Senators to fill casual vacancies, and as such the Senate could not authorise Supply, thus precipitating the constitutional crisis of 1975.

Between 1959 and 1975 the move from the revenue compensation approach and the distortions outlined above resulted in a skewed distribution, the details of which are outlined in Table 1.7. It is important to note that the grants exclude specific and special assistance grants, and are the grants that finance the general running of the States. This distribution has important dollar ramifications for the States. Victoria, for example, received $189 per capita from the Commonwealth, South Australia $100, and Tasmania almost $200 more, and it was the distributional distortions as well as Commonwealth program involvement, and the level of the pool of funds that set the scene for the post-Labor federalism negotiations.

TABLE 1.7 DISTRIBUTION OF POPULATION AND COMMONWEALTH GENERAL GRANTS TO THE STATES, 1975-76

	% of population	% of General Revenue Grants	$ per capita
NSW	36.13	30.42	193.36
Vic	27.53	22.70	189.37
Qld	15.51	18.42	272.62
SA	9.28	11.75	290.77
WA	8.55	11.67	313.23
Tas	3.00	5.04	385.68
Six States	100.00	100.00	229.62

Source: C.G.C., 1981b, Table A-3, p.19.

The Fraser Years 1976-1983

While the Whitlam Government was experiencing tension with the States, the Fraser Opposition had developed a policy stance and electoral campaign focusing on a "new" federalism policy with strong emphasis on "co-operation" and "partnership", in contrast to the perceptions of "domination" and "conflict" which it associated with the Government.

In 1976 the Fraser Government espoused a "new federalism' which proposed four major items of relevance: first there was a system of personal income tax sharing which was to replace general assistance grants, with a fixed share of personal income tax collection for the States; second, in the second stage of the arrangements, States would be free to charge an income tax surcharge or provide a rebate; third, specific purpose grants were to be reduced and, if appropriate absorbed into the tax-sharing grants; and fourth, the distribution of grants was initially to follow that of financial assistance grants in 1975-76, but there was to be an independent review of the relativities between States, although the four smaller States could continue to apply for special grants.

This last point is of great relevance here, for having established the trends in the level of general revenue grants, together with the associated distortions, the next chapter will examine the needs among the States which may form the basis of applications for special grants. In addition it will examine the methodology used in need determination and the Grants Commission review of the relative distribution of State general revenue and tax-sharing grants.

II

NEEDS ANALYSIS AND THE GRANTS COMMISSION

GRANTS COMMISSION METHODOLOGY

The tumult and the shouting of the early 1970s was allayed following the election of the Fraser Government in December 1975, and the holding of several Federal-State consultations resulting in a number of "Points of Understanding". The defusing continued with agreement at the 1977 Premiers' Conference that

> the per capita relativities would be reviewed periodically (in the first instance before June 1981) by the Commonwealth Grants Commission specially constituted for that purpose and consisting of the Chairman, two other members of the Commission and three associate members, one of whom was to be nominated by New South Wales and Victoria and two by the other four States.
> (C.G.C., 1981b: 20).

The Grants Commission Inquiry was to be into whether there should be any change in the distribution of funds to the States. This involved an examination of the weighting factors which were applied to State populations and which were used in the determinations on funding distribution. It was expected to use as a guiding principle the concept of 'fiscal equalisation', which implies a division of grants that would enable each State to provide services of comparable range and standard without having to impose appreciably different taxes and charges, and also to take into account differences in

(a) revenue raising capacity, and
(b) the cost of providing comparable Government services.

There was a further requirement that the matters which influenced the determination of State factors be taken into account.

Fiscal equalisation, it must be noted, does not necessitate action to equalise the actual services delivered, but rather to ensure that each State is financially able to provide equal services. In terms of equity the principle applies to State fiscal abilities rather than to services or to access to services.

An essential requirement of Grants Commission Inquiries is that any recommendations be based on objective criteria rather than the ad hoc and politically influenced grants and adjustments that had arisen in the post-war period, and thus the idea of division by a formula using explicit criteria was proposed.

Two reviews were conducted by the Commission. The first report was tabled at the Premiers' Conference held on June 20, 1981. The implementation of the revised factors would have led in 1981-82 to alterations in tax sharing grants as follows:

New South Wales	increase of $116 million
Victoria	increase of $ 55 million
Queensland	increase of $128 million
South Australia	decrease of $ 77 million
Western Australia	decrease of $160 million
Tasmania	decrease of $ 64 million

"Following discussion at the Premiers' Conference it was decided that a further report should be sought from the Commission..." (C.G.C. 1982a: 2)

In other words the 1981 Review was politically unacceptable, and the Commission was then asked to provide something which satisfied criteria of political satisfaction as well as ensuring distributional rationality, no easy task.

In its review of tax-sharing relativities which had previously focused on adjusted relative population figures, the Grants Commission adapted the method that had been used to assess States' claims for special funds. When applied to States claiming special assistance from the Commonwealth through the Commission, this method had involved estimating the amount of financial assistance needed to bring a claimant State's budget into line with a standard budget, (in this case the budgets of those States designated by the Commission as standard States, i.e. New South Wales and Victoria,) and the unit of comparison was per capita levels. In order that the comparison of "claimant" to "standard" was fair, the Commission modified budgets to exclude "abnormal items" and adjusted for above standard expenditure or below standard revenue raising by the claimant State —so called "standardisation". The adjustment of revenue and expenditure was designed to bring them into line with the expenditure and revenue efforts of the standard States.

The final adjusted or standardised budget deficit of the claimant State was equal to the difference between its standardised expenditure and its standardised revenue. Special grants were recommended by the Commission to make the per capita standardised budget result (deficit) of the claimant State the same as the average-standardised-per-capita-budget result of the standard States.

For the review of tax-sharing relativities the same basic system was adopted.

> Given the equalisation standard, each State's needs for a particular revenue category may be assessed, as for a claimant State, by reference to the difference between its per capita revenue-raising capacity and the per capita standard revenue-raising capacity, revenue-raising capacity being calculated in each case by applying the standard revenue effort to the appropriate revenue base. Each State's needs for a particular expenditure category may likewise be calculated, as for a claimant State, by reference to the difference between its per capita cost and the standard per capita cost of providing standard services. (C.G.C. 1981a: 25)

The difference in technique when applied to the tax sharing review was in the standard adopted. It was no longer the case that the result of this method would be used as a top-up to a particular State and thus be adjustable for varying levels of Commonwealth support, but rather be a matter of allocating the single largest and most highly significant source of all States' revenues. Instead of using an external standard (the standard States), for allocating residual funds to a claimant State, what was required, was an <u>internal</u> standard for assessing expenditure and revenue needs to distribute a 'pre-determined and unalterable amount of financial assistance', the States' share of tax collections. The central task becomes that of measuring <u>relative</u> need. In approaching this task the Commission saw the important issues as:

(a) derivation of a general distribution model for the determination of relativities, defining revenue and expenditure needs and the treatment accorded other Commonwealth financial assistance.

(b) the choice of standards: units, range of categories to be compared, time period, which measures of population to use, standards of tax rates and revenue effort.

(c) measurement of revenue needs (including land and mining taxes).

(d) measurement of expenditure needs (including the treatment of business enterprises).

Following lengthy discussions the Commission reported that "a substantial degree of consensus was obtained between the Commission and the six States on most major issues of principle and methodology" (C.G.C., 1981a: 26). Not all contention was resolved however, and the issues and the States' position on them are discussed at length in the Commission's 1982 Report (C.G.C., 1982a: 25 ff).

The Standardised Deficit Distribution Model

As a result of deliberations around the issues raised above, a standardised deficit distribution model was developed to assess the relative need of the States. A standard deficit is the difference between standard per capita expenditure and the sum of standard per capita revenue and standard per capita budget result, all multiplied by the State population. The standardised deficit for a State theoretically gave the amount of finance needed for that State, given its particular expenditure and revenue position, to provide standard services with a standard budget result and with standard taxes. The formula is as follows:

$$\begin{array}{c}\text{Standardised}\\ \text{deficit}\\ \text{(State i)}\end{array} = \begin{array}{c}\text{Population}\\ \text{(State i)}\end{array} \left[\begin{array}{c}\text{Standardised}\\ \text{expenditure,}\\ \text{per cap.}\\ \text{(State i)}\end{array} - \begin{array}{c}\text{Standardised}\\ \text{revenue,}\\ \text{per cap.}\\ \text{(State i)}\end{array} - \begin{array}{c}\text{Standard}\\ \text{budget}\\ \text{result,}\\ \text{per cap.}\end{array} - \begin{array}{c}\text{Stand.}\\ \text{specific}\\ \text{purpose}\\ \text{grants,}\\ \text{per cap.}\\ \text{(State i)}\end{array} \right]$$

Needs were assessed separately for different revenue and expenditure categories, the main categories for revenue being pay-roll tax, stamp duties, gift duty, gambling taxes, business franchises and fees, probate, and motor vehicle third party insurance; and for expenditure, Social Services, broken into education, culture and recreation, health, welfare and public safety (a detailed list is provided in Fig. 2.1); Other Expenditure; and Business Undertakings.

The method of calculating expenditure needs took two forms, the assessment by factors method and the modified per capita difference method. Assessment by factors was the preferred method and consists of identifying factors that contribute to differences in cost of providing a particular service of standard level, range and quality. The main factors used were:

Units of use: eligible population receiving the service

Scale:	cost differences due to the existence of economies or diseconomies of scale.
Population dispersion:	cost differences resulting from differences in the degree and pattern of dispersion of State populations.
Population-urbanisation:	relative cost differences due to socio-economic problems encountered in large urban areas.
Population-social composition:	cost differences due to diversity of ethnic or socio-economic groups.
Population-age structure:	cost differences resulting from differences in age structure.
Economic environment:	cost differences resulting from differences in the pattern of economic development or economic circumstances.
Physical environment:	cost differences resulting from effects of differences in topographic, climatic and other aspects.

Other factors were used according to the particular category —for example a health status factor was added for the expenditure category "General Medical Services". As a general procedure, subject to some qualifications, the relevant factors for an expenditure category were combined to give a particular State's cost differential factor for that expenditure category. The particular method of combining factors varied.

The second method of assessing expenditure need was the modified per capita difference method. This method entailed a comparison of actual per capita expenditures of the State being assessed and the State used as standard (after modifications mentioned above had been made). This was used where no policy or efficiency difference was held to exist so that expenditure reflected relative cost. Where policy/efficiency differences did exist attempts were made to measure and standardise for them. The modified per capita method was used mainly where data limitations prevented the use of assessment by factors. A modified form was used for the analysis of Business Undertakings.

FIG 2.1 SOCIAL SERVICES EXPENDITURE NEEDS CATEGORIES

Education

- *Pre-school education*
- *Primary education - government*
- *Secondary education - government*
- *Primary education - non-government*
- *Secondary education - non-government*
- *Technical and further education*
- *Transport of school children*

Culture and Recreation

- *Public libraries - subsidies*
- *Public libraries - direct provision*
- *Reference libraries*
- *Museums*
- *All galleries*
- *Other cultural activities*
- *Recreation*
- *National parks and wildlife*

Health

- *General medical services*
- *Maternal and infant health*
- *School medical services*
- *School dental services*
- *Public health - other*

Welfare Services

- *Child welfare*
- *Relief of the aged and infirm*
- *Emergency Relief and other services*

Law, Order and Public Safety

- *Administration of Justice - Expenditure*
- *Administration of Justice - Revenue*
- *Police*
- *Corrective services*
- *State Emergency services*
- *Shark protection*
- *Fire protection*
- *Public safety - other*

Other Expenditure Needs Categories:

- *Legislative*
- *Administrative Services*
  - *Auditor-General*
  - *Government Printer*

Having obtained a standardised deficit for each State, the final step was to combine these and come to a new set of relativities. This was not a simple matter of addition as the sum of the standardised deficits did not necessarily equal the funds available, the difference between the total deficits and funds available being called the distribution gap. Having decided that the choice was between distributing the shortfall on an equal per capita basis or in proportion to the size of each State's standardised deficit, the Commission compromised and used the arithmetic mean of the two methods.

Social Welfare and Analysis by Factors

Welfare Services, comprise only a small part of "Social Services" and an even smaller part of the standard budgets, around $30 out of $700 per capita in 1980-81a or approximately 4%. (Expenditure details are in Chapter 3, below). Although relatively small, Welfare Services are important with a total expenditure in the order of $500 million. It is now appropriate to turn from principles of need assessment to applications of fiscal equalisation factors as they relate to Welfare Services.

The first task in the Commission's analysis by factors was that of classification of the various functions and expenditure categories. It was originally proposed that there be two classes (Child Welfare, and Relief of Aged, Indigent and Infirm). Victoria argued for the smallest number of sub-groups because of the inter-dependence of relevant services. New South Wales on the other hand argued for a larger number (in fact six) on the grounds that this more closely resembled the elements to which its Department had to respond to achieve its objectives.

In the end a three-fold classification was made:

(a) Child welfare;
(b) Relief of aged and infirm; and
(c) Emergency relief and other services

Child Welfare was chosen as States have the major responsibility in this area and administratively they separate out this function (pre-school programs often considered a welfare area were included under education). The Aged and Infirm were separated out on the argument that they reflected substantially different demographic and economic characteristics.

Unfortunately not all services for the aged could be included due to allocation problems, and significant welfare-type services provided through Community Health Programs were included under "General Medical". The category mainly comprises concessions to pensions for Local Government and other rates and (small) expenditures directed at aged and physically handicapped people; consisting mainly of payments to organisations for aged persons, or organisations representing aged persons. Specifically excluded from this category are departmental reimbursements to public and private transport operations for concessional fares to pensioners, blind people, and ex-service personnel. In Emergency Relief and Other, expenditure items included are those for assistance for necessitous individuals, emergency accommodation and family welfare services. Also included are services specifically directed towards Aboriginals.

In terms of the cost of providing services, the States in their submissions to the review, originally identified areas of disability due to:

(a) the age/sex composition of the population, because of the varying demands for services by different age groups within the community;

(b) social composition, because of the over-representation among recipients of Aboriginals, migrants (especially those from non-English speaking countries), and single parent families;

(c) the incidence of poverty (measured in terms of income or of some composite of economic and social factors);

(d) scale, because of fixed costs of administration, and in the provision of institutional or residential care facilities;

(e) population dispersion, particularly in regard to services to the Aboriginal population; and

(f) differences among the States in the level of services provided by voluntary and other non-government agencies or by local government authorities.

The Commission found most of these factors to have an impact on cost structures but found no support for:

(a) scale being important to unit cost, and

(b) over-representation of migrants as users of services, including those of non-English speaking backgrounds.

The Commission decided that differences in non-government sector provision of services flowed from different State policies and so should be excluded. A single-parent index, as requested by some States, was thought to be so influenced by the choice and weighting of indicators, that the Commission adopted the number of pensioners and beneficiaries as a worthwhile proxy measure.

An additional point to be noted relates to the treatment by the Commonwealth of Specific Purpose Grants. The Commission held that some such grants were of such a general nature that they should be included as if they comprised revenue from the States' own resources. This is known as the "inclusion approach" which

> involves the inclusion of expenditure financed from the specific purpose grant as well as expenditure financed from State revenue sources in calculating the standard used for the assessment of expenditure needs, while the grant itself is treated as a revenue item subject to the separate assessment of revenue needs. This means that, where the per capita grant received by a claimant State exceeds the average per capita grant received by the standard States, the excess is treated as meeting part of the claimant State's assessed needs; and in the converse case the deficiency is treated as adding to its assessed needs.
> (C.G.C., 1981a: 41)

The details of these payments and their impact is taken up in Chapter 3, particularly Table 3.3 (below p.53).

NEEDS ANALYSIS APPLIED TO WELFARE SERVICES

Welfare Services, it will be recalled were listed in Figure 2.1 and divided into three specific areas, Child Welfare, Relief of the Aged and Infirm, and Emergency Relief and Other services. In this section the techniques used to determine relative need in these sub-categories are described.

Analysis by factors assesses relative expenditure needs for the States and per capita variation from standard expenditure as listed in Table 2.1. What this table shows is that the Grants Commission has assessed standard expenditure of $28.21 per capita for Welfare Services . This varies from State to State according to the analysis by the factors chosen. While the standard expenditure is $28.21, Victoria "needs" to spend $25.67 per head, given its population attributes and composition, while Western Australia would "need" to spend $30.56. In other words for every welfare service dollar in Victoria, $1.19 is needed in Western Australia; $1.17 in Queensland; $1.16 in Tasmania; $1.14 in South Australia; and $1.08 in New South Wales for the populations to receive the same types of services. The rankings of the States, in decreasing order or need, therefore, are Western Australia, Queensland, Tasmania, South Australia, and then a gap to New South Wales and a further drop to Victoria. When converted to actual allocations to the States, the final column in Table 2.1 shows the variation (in millions of dollars) from the amounts allocated in the States for Welfare Services. For those interested in detailed State needs breakdowns and variations from standard expenditure dating back to 1977-78, appropriate tables can be found elsewhere (C.G.C., 1982a: 145-148).

TABLE 2.1 ASSESSED NEED, WELFARE SERVICES 1980-81

	assessed need per capita $	variation from standard per capita $	total variation in allocation $M.
NSW	27.81	-0.40	-2.107
VIC	25.67	-2.54	-9.961
QLD	30.06	1.85	4.265
SA	29.29	1.08	1.420
WA	30.56	2.35	3.019
TAS	29.85	1.64	0.694
Standard Expenditure	28.21		

Source: C.G.C., 1982a: 148.

The Welfare Services total is a composite of the three sub-categories already mentioned. If we use Western Australia as an illustration, that State needs to spend $2.35 per capita more than the six-state standard assessed expenditure need. As will be shown below this is made up of needs of $3.18 above the standard for child welfare; $1.29 below the standard for relief of the aged etc., and 46 cents above the standard for emergency relief etc., ($3.18 minus $1.29 plus $0.46 equals $2.35). These results give a pattern of relative need in each State, and we can say that Western Australia for example, has a high relative need for childrens' services and a low relative need for services for the aged. The balance of need is overwhelmingly oriented to the young.

The factors used to arrive at the weightings, and the respective outcomes are discussed within each sub-category.

Child Welfare: Analysis by Factors

In this sub-category the Commission enumerated the population aged 0-17 as the target group with a 'broad judgement weighting' of 3 in favour of those aged 12-17 on the grounds that they have a higher demand. Social composition factors found to be relevant to demand and cost were: Aboriginal children; children of single parent families; and double orphan children —each group was given a weighting (Aboriginals 8, the other two 3) and combined to give a social composition factor. Dispersion of population was also considered a factor in costs and an index of regional centre population dispersion was included.

In the new round of submissions prior to the second Grants Commission review report, only Western Australia submitted criticism of the analysis of child welfare, although in its original submission New South Wales had claimed cost disabilities associated with servicing small rural communities and had stood opposed to the idea of regional centre service delivery. Western Australia argued for and submitted data to change the weighting for 12-17 year olds and for Aboriginal children. It wanted the 12-17 weighting changed from 3 to 2, but due to "uncertainty about data", the Commission made no change. With regard to Aboriginal children, it argued that 48% of children in institutions were Aboriginal, and asked for increased weighting. The weighting was increased from 8 to 10. Western Australia further argued for the inclusion of a factor on services provided by non-government bodies but presented no new data and this was rejected.

Following the 1982 Report the Assessed Needs in Child Welfare were as shown in Table 2.2. The table shows an absolute variation of $4.35 per capita between highest (Victoria) and lowest (Western Australia), a factor of 33%. For each dollar required by Victoria, the State with lowest assessed "need", Western Australia "needs" $1.33, Queensland $1.18, Tasmania $1.14, South Australia $1.07, and New South Wales $1.06.

In seeking an explanation for this variation attention must be focused first on the factors used in the analysis. Age distribution, to start with, varies among the States. The variations are small, but in 1980 (when the Commission was making its calculations) both Western Australia and Tasmania had notably higher proportions than other States, of children aged 5-18. This is the age group deemed to be most in need of childrens' services. Although children aged 5-18 were given a weighting of 3, the most highly weighted factor was Aboriginal children. As Table 2.3 shows, Queensland and Western Australia have higher proportions of Aboriginals than do the other States. Furthermore, not only do these States have a higher proportion of Aborigines, they together with South Australia have a greater proportion in the 5-19 age group than do other States (Table 2.4).

TABLE 2.2 ASSESSED PER CAPITA NEED: CHILD WELFARE 1980-81

	assessed need per capita $	variation from standard per capita $	total variation in allocation $M.
NSW	14.07	-0.31	-1.610
VIC	13.21	-1.17	-4.601
QLD	15.55	1.17	3.959
SA	14.09	-0.29	-0.378
WA	17.56	3.18	4.090
TAS	15.03	0.65	0.275
Standard Expenditure	14.38		

Source: C.G.C., 1982a: 144.

Other factors that were used in the analysis were the numbers of one parent families, numbers of children in those families, and numbers of double orphans. The single parent data came from the ABS 1975 General Social Survey of Australian Families (Catalogue No. 4107.0) which was conducted only in urban areas. The differences among the States were not large with a six State average of single parent families of 9.0% and a range from 8.4% (Victoria) to 10.8% (Tasmania). The proportion of children in one parent families varied from 7.0% in Victoria to 9.7% in Tasmania, with a six State average of 7.8%. The numbers of double orphans varied considerably with New South Wales and Queensland both having 29.2 per 100,000 population while Western Australia had 20.4. However the absolute numbers were very small and therefore the factor effect slight.

TABLE 2.3 STATE ABORIGINAL POPULATIONS 1980

	Numbers of Aboriginals	Aboriginals as percentage of State population
N.S.W.	44 100	0.86
Vic.	16 100	0.41
Q'ld	45 200	2 01
S.A.	11 500	0.89
W.A.	28 400	2.24
Tas	3 200	0.74
Six States	148 500	1.04

Source: Department of Aboriginal Affairs, Statistical Section Newsletter, No. 9, May 1980.

TABLE 2.4 STATE ABORIGINAL POPULATIONS: PROPORTIONAL AGE DISTRIBUTION, CENSUS 1976 PERCENTAGES

Age last Birthday	NSW	Vic	Q'ld	SA	WA	Tas	Six States
0 - 4	14.51	14.68	15.02	13.18	14.89	14.38	14.65
5 - 19	39.94	35.51	40.97	41.60	42.01	37.35	40.24
20 - 64	43.22	47.78	41.17	42.47	38.92	46.15	42.27
65 and over	2.33	2.03	2.84	2.75	4.18	2.12	2.84
	100.00	100.00	100.00	100.00	100.10	100.00	100.00

Note: These figures have not been corrected for census under-enumeration nor for non-response to the racial origin questions.

Source: Department of Aboriginal Affairs, Statistical Section Newsletter, No.9, May, 1980.

TABLE 2.5 STATE POPULATION DENSITIES

As at 30 June	NSW	Vic	Q'ld	SA	WA	Tas	Six States
Density (number of persons per square kilometre)							
1978	6.31	17.06	1.24	1.32	0.49	6.17	2.22
1979	6.39	17.22	1.26	1.33	0.50	6.23	2.24
1980	6.48	17.36	1.29	1.33	0.50	6.31	2.27
Percentages of State population (a) living in							
(i) Metropolitan Statistical Division	63.3	71.4	47.1	72.4	70.5	40.3	(b)
(ii) Other areas with densities greater than or equal to 0.4 persons per square kilometre	35.1	28.6	45.9	26.1	19.9	59.5	(b)
(iii) Areas with densities less than 0.4 persons per square kilometre	1.6	0.0	7.0	1.5	9.6	0.2	(b)

(a) De facto population as at 30 June 1976 (Census) used in this calculation.

(b) Not shown in source document.

Source: (1) Australian Bureau of Statistics, Year Book Australia 1979, p.49.

(2) Health Commission of Victoria, Victorian Submission V31, p.23.

The last factor to consider is that of population dispersion. The States regularly argue about costs related to the many issues involved in servicing scattered populations (See Table 2.5). In the 1981 report the Commission used a formula based on the cost of servicing distance-weighted populations in centres more than 50 milometres from capital cities. In the second round of submissions there was much criticism of this but in the end the Commission retained the formula. (The formula is given in C.G.C., 1981a: 110, and the subsequent arguments in C.G.C., 1982a: 44 ff).

Relief of the Aged and Infirm: Analysis by Factors

The factors used in this sub-category were quite straightforward. The Commission adopted numbers of civilian and service (disability) pensioners (including spouses) as the unit, and considered no other factor had a significant impact on relative costs. Prior to 1982 the States did not request any change in this category.

The assessed needs, expressed as variations on the standard, are listed in Table 2.6. The absolute difference in per capita assessed need was $2.08 which means the State with the highest assessed relative need (Tasmania) was 26% above that of the lowest (Western Australia). The standard expenditure was not as high as that for child welfare and the range was also less. Per capita standard expenditure in the aged category was only two-thirds ($9.22 compared to $14.38) that of child welfare and its high to low range of 126%, less than the 133% for child welfare. For every dollar required by Western

TABLE 2.6 ASSESSED PER CAPITA NEED: AGED AND INFIRMED 1980-81

	assessed need per capita $	variation from standard per capita $	total variation in allocation $M.
NSW	9.42	0.20	1.026
VIC	9.04	-0.18	-0.702
QLD	9.14	-0.08	-0.180
SA	9.99	0.77	1.005
WA	7.95	-1.29	-1.660
TAS	10.01	0.79	0.335
Standard Expenditure	9.22		

Source: C.G.C., 1982a: 146.

TABLE 2.7 PENSIONS AND BENEFITS BY STATE

1980

	Pensioners as a proportion of State population %	Index (Australia = 100)	Beneficiaries as a proportion of State population %	Index (Australia = 100)	Pensions and Benefits paid as proportion of household income %	Index (Australia = 100)
N.S.W.	14.66	102.4	2.99	99.7	6.90	95.8
Vic	13.89	97.0	2.63	87.7	6.90	95.8
Q'ld	14.62	102.1	2.96	98.7	7.93	110.1
S.A.	15.38	107.4	3.71	123.7	7.85	109.0
W.A.	12.32	86.0	3.34	111.3	7.00	97.2
Tas.	15.39	107.5	3.48	116.0	9.04	125.6
Australia	14.32	100.0	3.00	100.0	7.20	100.0

Source: C.G.C., 1981b: 179 and 181.

Australia, the lowest assessed need State in respect of relief of the aged and infirm, South Australia and Tasmania each need $1.26; New South Wales needs $1.18; Queensland $1.15; and Victoria $1.14.

The States were all in agreement with the use of factors in this sub-category. One could argue that there are other indicators of need but the Commission chose to stick to the level of pensioners, pensioners' dependent children, and beneficiaries as percentage of State populations. The comparison across the States in these indicators is shown in Table 2.7 along with a measure of the importance of pensions and benefits to household income.

Emergency Relief and Other Services: Analysis by Factors

This sub-category tried to bring together all other factors not covered by the first two, and related to the likely provision of welfare services. As such there was considerable difficulty and discussion on the appropriate measure of population used. In the end the unit used was the total population, with allowance made for special needs expressed through broad economic and social factors.

The economic environment's impact on costs was taken into account by including a reference to the numbers of pensioners (with a weighting factor of 2.5) and beneficiaries (with a weighting factor of 2.8). This was to reflect their relative use of emergency type services. The weightings applied were based on use of these services as noted in a 1978 Department of Social Security and Australian Council of Social Service joint survey of emergency relief.

It was felt that the Aboriginal population was under-represented in the economic factor, so was included in a social factor with a weighting (set at 2) derived from Western Australian Welfare Department data. In the 1981 submission, Western Australia argued for and got a rise in this weighting (to 10) on the basis that 42% of its expenditure in this category is on Aborigines.

Dispersion for service delivery was included by use of the Regional Service Centre formula mentioned above, but in the 1982 submissions Western Australia argued that its costs were significantly affected, to the extent of an extra 7% of costs, by dispersion. The Commission however felt this had been taken into account in the social factor.

TABLE 2.8 ASSESSED NEED, EMERGENCY RELIEF AND OTHER SERVICES 1980-81

	assessed need per capita $	variation from standard per capita $	total variation in allocation $M.
NSW	4.32	-0.29	-1.523
VIC	3.42	-1.19	-4.658
QLD	4.82	0.21	0.486
SA	5.21	0.60	0.793
WA	5.07	0.46	0.589
TAS	4.81	0.20	0.084
Standard Expenditure	4.61		

Source: C.G.C., 1982a: 148.

Scale costs were also discussed in this category and, while noting that staffing rates in Commonwealth Departments were generally higher in the smaller States, the Commission found no consistent pattern in this, and decided not to include it as a factor. The 1982 calculations of standard expenditure and assessed need for this category are given in Table 2.8. While the variation between the highest and the lowest ($1.79 per head), is a small amount in absolute terms, it is significant with the highest assessed need (South Australia) being 152% of lowest (Victoria). For every dollar required by Victoria, South Australia is assessed as needing $1.52, Western Australia $1.48, Queensland $1.41, Tasmania $1.40, and New South Wales $1.26.

Emergency relief and other services is the smallest of the welfare services categories, accounting for 16% of overall standard expenditure, compared with 51% for child welfare and 33% for relief of the aged etc. It does, however cover the widest range of services and involves the most difficult analysis by factors. For this category, particularly, there was a large variation between actual expenditure and assessed needs. The Commission attributed this both to difficulties in allocation between child welfare and emergency expenditure, and also to policy differences between the States.

GRANTS COMMISSION REVIEW FINDINGS

In both reports the Commission concluded that in 1981 a change was desirable in the State factors for the distribution of grants, and that in 1982, given the wider question of health grants, a further change was desirable. In terms of the State relativities the Commission's assessments are given in Table 2.9. Queensland and New South Wales and, to a lesser extent Victoria, were assessed as needing relatively greater shares than they receive at present, and the other States assessed as needing relatively less, with Western Australia to lose most. Table 2.10 helps illustrate these changes by expressing them as movements in percentage points and in millions of dollars. These points will be taken up again in Chapter 4 when considering the implementation of "New Federalism".

TABLE 2.9 STATE TAX SHARING GRANTS: STATE FACTORS AS ASSESSED BY THE GRANTS COMMISSION

State	Existing Factors	1981 Report	1982 Report	
			1981 Act Basis	Needs Basis
New South Wales	1.02740	1.048	1.018	1.030
Victoria	1.00000	1.000	1.000	1.000
Queensland	1.39085	1.487	1.531	1.431
South Australia	1.52676	1.319	1.402	1.387
Western Australia	1.66516	1.284	1.368	1.381
Tasmania	2.00188	1.549	1.589	1.573

Notes: 1) Factors are those used to weight State populations and are expressed as relativities of Victoria.

2) If taken as per capita levels the table implies that for every \$1 per capita to Victoria, under existing levels New South Wales would get \$1.0274, but under the 1981 report \$1.048; if health grants were made according to assessed need (column 4) \$1.03; and if health grants are distributed according to the 1981 Act \$1.018.

Source: C.G.C., 1982a: 245.

TABLE 2.10 CHANGES IN STATE SHARES DERIVED FROM FACTORS (GRANTS COMMISSION FINDINGS)

	Percentage Point Change		Amount $M.	
	1981 Report	1982 Report	1981 Report	1982 Report
New South Wales	+1.652	+0.498	+129.0	+ 38.9
Victoria	+0.818	+0.402	+ 63.9	+ 31.4
Queensland	+1.449	+2.105	+113.1	+164.3
South Australia	-1.081	-0.643	- 84.4	- 50.2
Western Australia	-1.965	-1.479	+153.4	-115.4
Tasmania	-0.874	-0.884	- 68.2	- 69.0

Note: The changes are relative to 1980-81 distribution.

Source: C.G.C., 1982a: 215.

TABLE 2.11 IMPLIED STATE REVENUE EFFORTS, SERVICE LEVEL, AND COMMONWEALTH GRANTS 1977-78 TO 1980-81

	Per Cent			
	Implied total Revenue Effort (b)	Implied Service Levels (c)		Commonwealth Grants Revenue Grants per capita 1980 - 81
		Social Service	Total Expenditure	
NSW	104.8	99.1	102.0	96.3
VIC	104.5	104.4	104.3	82.4
QLD	82.4	80.6	82.6	120.3
SA	101.9	110.0	104.4	125.1
WA	90.9	108.4	102.3	134.0
TAS	93.6	114.7	108.7	163.6
SIX STATES	100.0	100.0	100.0	100.0

Notes: (a) These represent the simple average of the figures calculated for the four years 1977-78 to 1980-81.
(b) Actual revenue as percentage of standardised revenue.
(c) Actual expenditure as percentage of standardised expenditure.

Source: C.G.C., 1982a and C.G.C., 1982b and Mathews 1982a, Table 3.
Last column calculated from Commonwealth Budget Paper No.7,1982-83.

There is one aspect of the findings of the Grants Commission that is worth reporting in this context, and this relates to the aggregate expenditure and revenue raising effort of the States compared to standardised levels. These data are reported in Table 2.11. Looking across the top line of the table we see that New South Wales raised 4.8% more revenue than the average, spent 0.9% less on social services, but 2.0% more overall, and received 3.7% less in general revenue grants. Overall the findings confirm the public finance discussion centred on Table 1.4, (above p.14) but given the effort put into the standardisation of budgets, Table 2.11 provides a more detailed and probably more accurate breakdown.

IMPLICATIONS FOR SOCIAL WELFARE OF NEEDS ASSESSMENT AND ANALYSIS BY FACTORS

Questions of both a technical and non-technical nature arise from the approach used by the Grants Commission in assessing needs. Of importance in Welfare Services are the actual relativities as well as the theory on which the determinations are made. The Commission pointed out that in order to make valid comparisons of Social Services expenditure it "distinguished between those interstate differences in relative expenditure which arose from causes beyond the control of the respective State governments (and which therefore contributed to expenditure needs) and those which were attributable to State policies" (C.G.C., 1982a: 95). Four main headings can be used to discuss these issues: measurement issues, weighting issues, the choice of standards, and the use of social indicators when related to welfare.

Measurement

Measurement problems relate both to attempts to obtain accurate readings as well as to the choices for inclusion and exclusion of a factor. Measurement in social welfare is not always easy. Theoretical questions of what constitutes welfare need are complex and convoluted. Hidden groups, hidden needs, hidden problems often defy accurate identification. The Commission is not able to estimate hidden problems and when using official statistics these do not surface. Hidden unemployment, for example, has taken a long time to become accepted as a real phenomenon, and still the estimates vary. The Commission used as one part of one of its measures of need, the number of beneficiaries. Not all who are unemployed are counted as such, and not all who are counted are in receipt of Unemployment Benefit. The only consoling argument, for the Grants Commission, is that as it deals in State relativities, the under-enumeration is probably comparable in all States.

The Aboriginal population features in several factors and generally is the highest weighted grouping. Aboriginal under-enumeration is well known as a problem in Census data and measurement difficulties can have an important effect on State revenue.

The use of any particular measure often brings into focus a contrasting measure, and debate is opened up. In its reports the Commission lists both the de jure and defacto populations. In both June and December de facto populations in Queensland are approximately 20,000 higher than de jure populations. Do these visitors consume services? Should they be included in the population of Queensland or in that of their home State? Similar problems arise with measures of population dispersion. Is it most appropriate to work on population densities, degree of urbanisation, number of population centres requiring some basic services, or any of several other dispersion measures?

Levels of measurement are important. When dealing with age distribution of the population, the population aged 65 and over is usually regarded as homogeneous. Within the elderly population however, service usage, chronicity, and housing preference of those aged 65 to 75 are quite different to those over 75.

Questions of inclusion and exclusion must be noted. The Grants Commission includes single parents, children, Aborigines, but excludes working mothers, Housing Commission tenants, and migrants. Is this because it is easier to measure one group than another? Persons born in non-English speaking countries comprise 11% of Australia's population: 14.7% of the population of Victoria; 11.6% in New South Wales; 10.7% in Queensland; and 3.9% in Tasmania. Do some States incur extra expenses given this variation? Is exclusion a policy matter or is it to do with the structure of service provision?

Measurement issues can also relate to questions of location —for example transport concessions are equivalent in economic terms to subsidies or rebates for water and local rates, yet the latter is located in welfare and the former not. Using Grants Commission working papers and estimating per capita costs associated with transport concessions we calculate that in 1980-81 while per capita rate concessions were $9.57, $8.04 and $2.68 respectively in New South Wales, Victoria and Western Australia, transport concessions were of the order of $4.50, $2.50 and $2.90 per capita. Both, of course, are important to the welfare of the recipient population. (Transport concessions are located within "business undertakings"). Similar questions arise when we examine the location of age related services ("health" or "welfare"?) or pre-school services ("education" or "welfare"?). Does it matter very much where these are located so long as they appear somewhere in the needs analysis?

Weighting

There are times when weightings may seem arbitrary. The choice of what weight to give is related to both policy and general population. Judgements have to be made. There are a number of instances where the Commission based its work on broad judgement weightings and others where it used the results of surveys or data from the States. An example of the broad judgement approach is the use of a factor of 3 in child welfare for 12-17 year olds. South Australian experiences indicate the factor should be 7, preliminary data from WELSTAT (covering 4 States) indicate the factor is probably above 3. Where data are questionable, incomplete, or conflicting, the only way out appears to be on a broad judgement basis. Perfectly verifiable weighting cannot be assumed, and this raises what will be a continuing difficulty.

A related question is that of whether weightings reflect policies or needs. The issue of 12-17 year olds reflects this. In South Australia there has for some time been a concerted policy towards community based, staff intensive services to cater for children and to keep the rate of institutionalisation down. For Western Australia with over 40% of the institutionalised population Aboriginal, it is in that State's interest to reduce the weight for 12-17 year olds, and increase that for Aborigines. When one turns this illustration around one can see the relative importance to Western Australia of the cost of services to Aborigines. 42% of the cost of welfare services in Western Australia are attributed to the Aboriginal population. Does this reflect the needs of Aborigines for services, or does it reflect the structure of services in Western Australia?

Standards

A lot of thought has been put into the appropriate standards of comparison in the Commission's model but that which is appropriate overall, may not necessarily be appropriate for the constituent parts, so the question of objective or absolute as opposed to relative need arises. It is appropriate to say that relative to the six State average, Tasmania has to help x thousand and New South Wales y thousand unemployed, or are population proportions a better measure?

Closely related to this is the issue of whether funds are allocated because a need exists or because a service is being provided. Should funds be provided to a State because it has a higher than average level of, say, handicapped people, if in fact the State makes no effort to meet the needs of that group. Looking forward to the expenditures in the next chapter it appears that although Queensland only spends around $20 per head on Welfare Services it would be possible to have its grant set at a level to enable it to spend $30, but it may not spend that money on welfare. The approach of the Grants Commission is that this reflects the considered choice of the Queensland Government to spend less on welfare. The Commission assesses needs and costs in meeting those needs —the State Governments spend as they see fit.

Another issue relating to standards is that of at what level should a standard apply; National, State, Regional, local or other? To use an example of unemployment, it is in all probability true that the level of demand across a whole range of welfare and related services is much greater for a depressed area. The level of demand generated by 10,000 unemployed people distributed over the State is not the same as that for 10,000 unemployed in a few suburbs of, say, Newcastle. There are community linkages that raise doubts about a broader geographic analysis.

There are a host of issues that do not fit comfortably with the four group classification of issues but which are probably best raised here. The sort of issues are such things as how an emphasis on preventive services should be counted, or allowances for efficiency, or the treatment of higher than average levels of service, might be included.

A further note of caution needs to be expressed about the service provision role of non-government bodies —in particular their role in emergency relief. Cash assistance provided by State governments varies both with policy and the financial health of non-government welfare organisations. We might consider how this is to be reflected in any measure of demand or cost.

Social Indicators

The final issue is that of the appropriateness of a social indicators approach to welfare. The social indicator movement developed in the late 1960s as a reaction against those who saw Gross National Product and per capita income as satisfactory and sufficient indicators. The construction of an adequate data base for social development suffers from the fact that most of the rigorous and reliable accumulated statistics in our society relate to economic matters. Quite clearly measures of economic well-being do not reflect total social well-being, yet for some time measures of per capita income; motor vehicle ownership; television sets per capita; consumer credit; holidays abroad and so on have been used as indicators of well-being.

Social indicators are not just another set of statistics. "What is needed," wrote Mancur Olsen, (1970: 27) "is statistical and other information of a normative nature —statistics about the social advances and setbacks which are not reflected in the market prices or national income statistics... A social indicator... is a measure of developments in which a society has a direct normative or moral interest, evident from the purpose of public policies". Any social indicators that might be developed, however, are always related to values and goals and have been described as measures that enable the user to assess the social condition of some area or group with respect to some value or goal, and evaluate the impact of public programs designed to realise that value or achieve that goal.

Descriptive and analytical indicators must be distinguished. Descriptive indicators are social indicators which will provide information indicative of one or more dimensions of society at any given point in time. These are descriptive in that they are not integrated into any analytical model specifying their basic relations to society. Analytical indicators on the other hand are integrated into a model of the causes, and sometimes consequences, of change.

The development of an operationally feasible set of social indicators is not at hand, and a great deal of time has been taken up in the last decade in attempting to construct suitable indicators. From its work, the Grants Commission would be most unlikely to move into analytical indicators, and to some extent it could be argued that the assessment by factors is an important step towards a set of descriptive social indicators. Whatever types of social indicators are developed, and whatever weightings are given, the outcome is always open for debate and the debate comes down to the distribution of finance on the basis of empirical techniques in an area where issues and questions are so clouded. A set of examples which highlight the service/usage/population elements, elements which when taken together are critical in the development of indicators, can be used to close the chapter, but start the discussion.

In its analysis the Commission rejected the proposition that migrants are high users of welfare services (above p. 30). Is this because migrants do not use services or because there are no appropriate services for migrants to use? For the emergency relief classification the weights applied to particular groups were based on a survey that measured who was receiving those services. There appears to be an under-representation of the aged, migrants, and Aboriginals as users of the service. Is this a problem in the sample or is it that these groups get help elsewhere, or that they are less willing to approach welfare bodies? Answers to questions such as these are necessary in the development of social indicators, or any rational distributional method.

III

STATE EXPENDITURES

STANDARD BUDGETS

One of the great difficulties in assessing and comparing expenditures of the various State Governments is that budgeting and accounting procedures vary greatly, and items included under one heading in one State appear under different, or several, headings in another State. This has been a difficulty for the Grants Commission in its analyses of tax sharing relativities, and in order to overcome inconsistencies and work from a comparable base of expenditure and revenue, "standard budgets" were prepared for the States by modifying the States' accounts.

In the words of the Commission,

> The purpose of the accounting modifications was to adjust the expenditures and revenues actually recorded in State revenue budgets so as to achieve uniformity of accounting treatment among the States and ensure that the Commission's comparisons were based on a common or standard range of budget items.
> (C.G.C., 1982a: 14)

Excluded from the standard budgets are transactions of a capital nature and business undertakings (except those consistently running at a deficit). Specific purpose payments from the Commonwealth are, for the most part, excluded except where items were treated as "being analogous to State revenues from own sources, and hence subject to equalisation" (C.G.C. 1982a: 15). The importance of specific purpose grants is greatest in the categories of Aboriginal services and child care services and these are discussed below (a list of inclusion items is given in C.G.C. 1981a, para 2.115, p.48).

With the preparation of State budgets in a standard format, interstate comparisons and an examination of the internal distribution of State expenditure can more easily be made. This is not to say that the listed expenditures, particularly on welfare services and its three components, represent all welfare expenditure, or that the Commission intended that they should. The budgets were constructed from a pragmatic accounting point of view rather than to find out what each State spent on closely defined welfare services, and are structured so that an item will be classified under the same heading for each State.

The important qualifications to note are that housing and State unemployment relief measures are excluded; that components of the community health program which strictly speaking, are welfare, are included in health; that some Commonwealth specific purpose payments, notably those for Aboriginals, are included as State expenditures; that welfare transport concessions are excluded; and that the three sub-categories of welfare do not necessarily conform to welfare definitions.

Budgets may vary from year to year and between States because of advances and repayments in particular areas and this, together with the points made above, make the level of expenditure and comparisons by state and by category more indicative than absolute.

SOCIAL SERVICES

'Social Services' comprise the largest part of the States' standard budget expenditure. There are five component parts: Education; Culture and Recreation; Health; Welfare Services; Law, Order and Public Safety. Table 3.1 shows the magnitude of social service expenditure, its components and the other items that make up total expenditure. The States have a population weighted mean per capita social service expenditure of about $700 out of a total mean per capita expenditure of $947, approximately 74% of States' expenditure. The proportion of social service expenditure is highest in South Australia (78%) and lowest in Queensland (72%). These differences in proportional expenditure on social services are not as great as the differences in per capita expenditures shown in Table 3.1.

One half (49%) of Social Service expenditure goes on Education, over one third (35%) on Health while the Welfare Services category represents 4% of social services, and about 3% of total standard budget expenditures. Absolutely speaking, the $20 to $38 per capita expenditure on welfare is swamped by the variations in Education($119) and Health ($114).

The variation in composition can be seen in Table 3.2. Victoria has relatively low proportions spent on Health and Law and Order but a higher proportion on Education; Queensland, which spends least overall, balances proportionally less Welfare with more Law and Order; the distribution of

TABLE 3.1 COMMONWEALTH GRANTS COMMISSION ESTIMATES OF NET STATE EXPENDITURES, 1980-81

	NSW	VIC	QLD	SA	WA	TAS	SIX STATES
Education							
$M	1725.292	1416.959	684.612	508.070	453.514	176.621	
$ per capita	331.58	360.61	296.64	386.95	352.79	415.28	343.26
Cultural & Rec.							
$M	77.447	55.065	31.475	34.617	27.768	12.957	
$ per capita	14.88	14.01	13.64	26.37	21.60	30.46	16.55
Health							
$M	1255.880	885.616	494.558	341.061	423.609	118.615	
$ per capita	241.37	225.39	214.29	259.76	329.52	278.89	243.31
Welfare Services							
$M	145.364	109.571	46.452	46.938	49.510	10.270	
$ per capita	27.94	27.89	20.13	35.75	38.51	24.15	28.21
Law Order Pub. Safety							
$M	368.204	222.147	149.092	99.416	107.916	43.379	
$ per capita	70.76	56.54	64.60	75.72	83.95	102.00	68.45
Total Social Services (net)							
$M	3572.187	2689.357	1406.190	1030.102	1062.316	361.841	
$ per capita	686.53	684.43	609.29	784.54	826.37	850.78	699.79
Other Exp. (net)							
$M	649.930	527.325	328.493	208.831	208.652	101.263	
$ per capita	124.91	134.20	142.33	159.05	162.31	238.09	139.96
Net Impact of State Business Undertakings							
$M	690.488	402.350	214.706	90.504	135.616	11.539	
$ per capita	132.70	102.40	93.03	68.93	105.49	27.13	106.83
Total Expenditure							
$M	4912.605	3619.032	1949.389	1329.437	1406.584	474.643	
$ per capita	944.15	921.03	844.66	1012.52	1094.17	1116.00	946.58

Source: C.G.C. 1982b, Tables A-4 and A-20.

New South Wales expenditures and those of South Australia (which are slightly up on Culture and Recreation) are close to those of the six States' proportional average, even though the per capita difference between South Australia and New South Wales approaches $100; Western Australia, with very high per capita expenditures ($826), spends proportionately less on Education and more on the others, particularly on Health; Tasmania varies a little from the average in each category and has by far the highest overall per capita expenditure, 22% higher than the average, although some of the variation may be due to the relatively small population base.

TABLE 3.2 COMPOSITION OF PER CAPITA STATE SOCIAL SERVICE EXPENDITURE, 1980-81

(Per Cent)

	NSW	VIC	QLD	SA	WA	TAS	SIX STATES
Education %	48.3	52.7	48.7	49.3	42.7	48.8	49.1
Culture and Recreation %	2.2	2.0	2.2	3.4	2.6	3.6	2.4
Health %	35.2	32.9	35.2	33.1	39.9	32.8	34.8
Welfare Services %	4.1	4.1	3.3	4.6	4.7	2.8	4.0
Law Order and Public Safety %	10.3	8.3	10.6	9.7	10.2	12.0	9.9
	100	100	100	100	100	100	100
Total Social Services $ per cap	686.53	684.43	609.29	784.54	826.37	850.78	699.79

Note: Totals may not add due to rounding

Source: Authors' Calculations based on Table 3.1

The figures listed so far are aggregate expenditures and include some Commonwealth specific purpose payments, the most important of which are for Health (recurrent costs of public hospitals, and community health); for Education (pre-schools, schools, and T.A.F.E.); and for Welfare (child care and related Aboriginal services). The notable feature (see Table 3.3) is the variation in the relevant specific purpose payments from a high of $184.76 (Western Australia) to a low of $134.66 (Queensland) with a six State average of $151.33. When all these specific grants are subtracted from the total per capita social service expenditures, expenditures from general State sources can be determined (though this is complicated by the fact that hospital grants were linked to State expenditures and T.A.F.E. grants to levels of activity financed by the States).

TABLE 3.3 PER CAPITA COMMONWEALTH SPECIFIC PURPOSE GRANTS TREATED BY INCLUSION METHOD IN COMMONWEALTH GRANTS COMMISSION STANDARD BUDGETS, 1980-81

	NSW $	VIC $	QLD $	SA $	WA $	TAS $	SIX STATES $
Education	54.95	59.97	49.64	53.16	53.90	52.96	55.15
Health	95.69	84.04	84.48	103.90	128.66	111.68	94.94
Welfare Services	0.88	1.20	0.54	3.18	2.20	1.08	1.24
Total	151.52	145.21	134.66	160.24	184.76	165.72	151.33

Note: Grants included are:

For Education: technical and further education, schools, pre-school education, school to work transition and grants for Aboriginal education.

For Health: public hospital running cost, community health, school dental program, blood transfusion and grants for Aboriginal health.

For Welfare Services: child care and grants for welfare of Aboriginals.

Source: Commonwealth Budget Paper No. 7, 1982-83, Table 102, pp. 164-167.

It should, of course, be noted that a higher expenditure in a specific area is not necessarily "better" than a lower figure. For example in health expenditure, Western Australia has by far the largest per capita expenditure (35% above the mean), yet criticism has been levelled at the West Australian Government for its inability to control costs, hospitalisation rates, and numbers of procedures. It is argued that this, rather than service quality, accounts for the higher per capita cost. Judgements about service quality and its relation to expenditure are notoriously difficult, and are not attempted here although they may form part of a social indicator approach. Having said this we also note that expenditure may vary for good and sufficient reasons such as differences in populations or in the cost of service provision, analysis of which was one of the central tasks of the Grants Commission reviews.

WELFARE SERVICES

Welfare Services, as defined by the Grants Commission (child welfare; aged and infirm; emergency relief and others), comprise a very small proportion of State expenditure, and seem negligible when placed alongside Education and Health. Nevertheless the dollar amounts are not insubstantial. Inclusive of Commonwealth special purpose payments the States' expenditure on Welfare Services in 1980-81 was $408.13 million, and exclusive of special purpose payments, $390.11 million (Table 3.4).

What is notable in Table 3.4 is the enormous expenditure variation among the States with the three smallest states spending considerably more than New South Wales and Victoria, and Queensland spending considerably less. The difference between the highest spender, Western Australia with a per capita expenditure of $38.51, and the lowest, Queensland with a per capita expenditure of $20.13, was $18.38 per capita. Queensland spent $46.46 million on Welfare Services, and were it to have spent at the same rate as Western Australia, the figure would have been approximately $89 million, 91% above its actual expenditure. These variations have substantial dollar ramifications and are shown in Table 3.5. (Note in this table how Queensland and Tasmania fall well below the mean in per capita Welfare Services expenditure while Western Australia and South Australia are well above the mean; in Child Welfare per capita, South Australia and Western Australia are well above the mean while Queensland is well below; in Aged and Infirm per capita Queensland, Western Australia and Tasmania are well below the mean, with Victoria well above; in Emergency Relief and other per capita, Western Australia is astronomically above the mean and Victoria well below.)

TABLE 3.4 WELFARE SERVICES EXPENDITURE USING GRANTS COMMISSION CATEGORIES, BY STATE, 1980-81

	Inclusive of Commonwealth Special Purpose Payments		Exclusive of Commonwealth Special Purpose Payments	
	$ per capita	$ million	$ per capita	$ million
NSW	27.94	145.37	27.06	140.79
VIC	27.89	109.56	26.69	104.86
QLD	20.13	46.46	19.59	45.21
SA	35.75	46.94	32.57	42.76
WA	38.51	49.52	36.31	46.69
TAS	24.15	10.26	23.07	9.80
SIX STATES	28.21	408.13	26.97	390.11

Note: see Table 3.3

Source: C.G.C. 1982b, Table A-20 and Authors' Adjustment using data from Commonwealth Budget Paper No.7, 1981-82, Appendix VI.

EXPENDITURE CHANGES IN RECENT YEARS

In the standard budgets data were obtained for expenditure in three financial years from 1977-78 to 1980-81. Welfare Services expenditure growth was calculated for this period and compared with two regularly used indices, the Consumer Price Index (CPI) and Average Weekly Earnings (AWE). Under different assumptions either could be used as a standard of comparison, but choice is unimportant as in all States Welfare Services expenditure grew at a faster rate than either of the two indices. Table 3.6 provides indices of growth while Table 3.7 lists comparative growth rates of the sub-groups of Welfare Services. Because the time span is short, and budgets are subject to fluctuation, care should be taken in drawing conclusions from these two tables (particularly for the subdivisions), but some inferences can be drawn.

TABLE 3.5 STATE EXPENDITURE ON WELFARE SERVICES AND ITS COMPONENTS 1980-81

	NSW $	VIC $	QLD $	SA $	WA $	TAS $	SIX STATES $
				(millions)			
Child Welfare	70.555	57.456	26.158	25.002	22.635	6.201	208.007
Aged and Infirm	54.528	45.964	8.701	13.183	8.412	2.569	133.357
Emergency Relief and other	20.282	6.151	11.593	8.753	18.463	1.499	66.741
Welfare Services	145.364	109.571	46.452	46.938	49.510	10.270	408.105
				(per capita)			
Child Welfare	13.56	14.62	11.33	19.04	17.61	14.58	14.38
Aged and Infirm	10.48	11.70	3.77	10.04	6.54	6.04	9.22
Emergency Relief and other	3.90	1.57	5.02	6.67	14.36	3.53	4.61
Welfare Services	27.94	27.89	20.13	35.75	38.51	24.15	28.21

Note: Includes specific purpose payments.

Source: C.G.C. 1982b, Table A-20, pp.32-33.

TABLE 3.6 STATE WELFARE EXPENDITURES USING GRANTS COMMISSION CATEGORIES 1977-78 AND 1980-81

	NSW	VIC	QLD	SA	WA	TAS	SIX STATES
$M							
1977-78	94.273	76.506	31.511	34.083	33.959	7.018	277.350
1980-81	145.364	109.571	46.452	46.938	49.510	10.270	408.105
Index of Growth	1542	1432	1474	1377	1458	1463	1471
$ per capita							
1977-78	18.76	19.80	14.79	26.31	27.89	16.84	19.88
1980-81	27.94	27.89	20.13	35.75	38.51	24.15	28.21
Index of Growth	1489	1408	1361	1359	1381	1434	1419
Index: AWE	1351	1341	1334	1328	1334	1362	1343
CPI	1319	1298	1297	1290	1286	1297	1304

Note: AWE is Average Weekly Earnings; CPI is Consumer Price Index.

Source: C.G.C. 1982b, Tables A-18 and A-20; Australian Bureau of Statistics Australian Year Book, Cat. 1301.0; and Consumer Price Index Cat. 6401.0.

TABLE 3.7 PERCENTAGE GROWTH IN PER CAPITA WELFARE SERVICES EXPENDITURE, 1977-78 TO 1980-81

	NSW %	VIC %	QLD %	SA %	WA %	TAS %	SIX STATES %
Child Welfare	48.7	24.7	49.1	73.7	24.6	57.3	40.7
Relief of Aged and Infirm	56.7	68.3	69.8	65.4	272.5	181.9	167.0
Emergency Relief and other	32.2	38.9	0.8	-28.1	26.4	-16.9	12.2
Total Welfare Services	48.9	40.9	36.1	35.9	38.1	43.4	41.9

Source: C.G.C. 1982b, Tables A-18 and A-20.

Table 3.6 shows that in the period, per capita State welfare expenditures grew by an index of 1419 (41.9%) while CPI grew by 30.4% and AWE by 34.3%. These convert to compound growth of around 12.5% for welfare compared to 9 to 10.5% for CPI and AWE. In terms of relative growth, New South Wales grew most quickly with an index of 1489 (48.9%) while the smallest growth was experienced by South Australia with 35.9% a touch behind Queensland at 36.1%. The growth in South Australia and Queensland was the closest among the States to the growth in AWE. When examining growth by subdivision (Table 3.7) it can be seen that Relief of Aged and Infirm was the main growth area, and that falls in real terms were experienced overall in Emergency Relief.

From 1977-78 to 1980-81 there was an expenditure shift from Emergency Relief to Relief of the Aged (Table 3.8). In 1980-81 about one half (51.9%) of Welfare Services expenditure went to Child Welfare, 32.7% to Relief of Aged, and 16.3% to Emergency Relief. There are variations between the States, and the table shows variations ranging from 45.7% (Western Australia) to 60.4% (Tasmania) for Child Welfare; from 17.0% (Western Australia) to 42.0% (Victoria) for Relief of Aged; and from 5.6% (Victoria) to 37.3% (Western Australia) for Emergency Relief. These categories, it should once again be noted, reflect accounting procedures as well as welfare functions. The interstate variations reflect a number of factors, the most important of which are different population compositions and differences in policies, services, and populations served.

TABLE 3.8 PERCENTAGE DISTRIBUTION OF PER CAPITA WELFARE SERVICES EXPENDITURE BY GRANTS COMMISSION CATEGORIES, 1977-78 & 1980-81

	NSW %	VIC %	QLD %	SA %	WA %	TAS %	SIX STATES %
1977-78							
Child Welfare	48.6	59.2	51.4	41.7	50.7	55.1	51.4
Relief of Aged and Infirm	35.7	35.1	15.0	23.1	8.6	19.7	27.8
Emergency Relief and other	15.7	5.7	33.7	35.3	40.7	25.2	20.8
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1980-81							
Child Welfare	48.5	52.4	56.3	53.3	45.7	60.4	51.0
Relief of Aged and Infirm	37.5	42.0	18.7	28.1	17.0	25.0	32.7
Emergency Relief and other	14.0	5.6	24.9	18.7	37.3	14.6	16.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Totals may not add due to rounding.

Source: C.G.C. 1982b, Tables A-18 and A-20.

Although we are able to document expenditure variations, our ability to explain them is limited, and better left for those in the various States. Some ventures towards explanation can be embarked upon. The Victorian Government, for example, has made a policy decision not to involve itself in cash assistance. This combined with a strong non-government welfare sector in Victoria may account for that State's very low proportionate expenditure on Emergency Relief. Population factors are important in Western Australia —which has a comparatively low aged population and a high Aboriginal population.

Expenditure for the Aboriginal population comes under Emergency Relief; Western Australia has a comparatively weakly structured non-government welfare sector; and the State Government does provide cash assistance. These policy and population factors together may help explain the high Emergency Relief expenditure of that State.

CHILD WELFARE

Child welfare, the largest component within welfare services, includes expenditures incurred in the relevant part of State welfare departments, costs associated with institutional care of children, fostering, adoption, police boys clubs, etc. The largest expenditures are in residential care and in relevant costs of State welfare departments. Rather than breaking down the specific item expenditures, State child welfare expenditure aggregates provide information on variations. In 1980-81, as seen in Table 3.5, per capita expenditure on child welfare, ranked by State was as follows:

	$
South Australia	19.04
Western Australia	17.61
Victoria	14.62
Tasmania	14.58
Six States	14.38
New South Wales	13.56
Queensland	11.33

The difference between highest and lowest is $7.71, and in dollar terms it means that where Queensland had an expenditure on child welfare of $26.15 million (Table 3.5), were it to have spent at the same rate as South Australia its expenditure would have been $43.94 million, a rise of $17.8 million, or 47%.

There are many possible explanations for this variation —mostly policy related. South Australia, for example, has been at the forefront in deinstitutionalization, and this is not a cheap process. In Western Australia high numbers of Aboriginal children in the child welfare system together with the high rate of dispersion may add to expenditure. Those closer to policy making in the various States may be able to explain the variations.

RELIEF OF THE AGED AND INFIRM

The major component of service expenditure in this category includes concessions to pensions (but not transport concessions), as well as home care and other programs for aged and disabled persons (but not expenditures under the community health program). The variation among the States is much greater here than for Child Welfare. In the Relief of the Aged and Infirm the highest spending State is Victoria ($11.70 per capita) while the lowest spending State is Queensland ($3.77 per capita), a difference of almost $8 per capita which is notable when one considers that the mean expenditure is $9.22.

As was shown in Table 3.5 expenditure is not large on a per capita basis, yet in 1980-81 totalled $133.35 million. The State per capita rankings (1980-81) were as follows:

	$
Victoria	11.70
New South Wales	10.48
South Australia	10.04
Six States	9.22
Western Australia	6.54
Tasmania	6.04
Queensland	3.77

The sharp division in expenditure between the top three States and the others bears no relation to the age composition within those States. South Australia has the highest proportion of the population aged 65 or over (10.5%), followed by New South Wales (10.1%), Tasmania and Victoria (both 9.9%), Queensland (9.6%) and Western Australia (8.7%). The national figure is 9.75% (1981 Census).

Using Grants Commission working papers, Relief of Aged etc, can be broken into three sub-groups and this reveals substantial variation among the States. The three sub-groups are :

. Water and Land Rate Concessions
. Other Concessions
. Other Expenditures

Table 3.9 shows the breakdown of expenditure within the Relief of Aged and Infirm sub-category, and that income support in the form of various concessions overwhelms service expenditure. When concessional expenditures are removed the expenditure ranking among the States differs substantially and a different picture emerges regarding service expenditure for elderly and disabled persons.

Using New South Wales as an example, the overall 1980-81 expenditure of $54.5 million breaks down as follows: Water and Land Rate Concessions $48.7 million; other concessions (driving licences and other concessions to aged ex-servicemen) $1 million; other expenditure (Home Care Services and miscellaneous aged support grants) $4.8 million. In other words, of the $10.58 per capita, $9.57 goes in concessions and $0.91 in payments for services. For every service dollar, therefore, more than ten dollars goes in what can only be described as a form of income support. The same pattern prevails in South Australia where out of $10.04 per capita, $9.17 goes in income support and only $0.87 in services.

TABLE 3.9 COMPOSITION OF GRANTS COMMISSION EXPENDITURE CATEGORY RELIEF OF AGED AND INFIRM, 1980-81

	NSW $M	VIC $M	QLD $M	SA $M	WA $M	TAS $M	SIX STATES $M
Pensioner Rate Concessions	48.682	31.571	3.791	11.679	3.210	1.519	100.452
Other Concessions	1.089	0.008	-	0.357	0.232	-	1.686
Service Expenditure	4.757	14.385	4.910	1.147	4.970	1.050	31.219
Total	54.528	45.964	8.710	13.183	8.412	2.569	133.357
	$ per cap	$ per cap	$ per cap	$ per cap	$ per cap	$ per cap	$ per cap
Total Concessions	9.57	8.04	1.64	9.17	2.68	3.57	7.06
Service Expenditure	0.91	3.66	2.13	0.87	3.86	2.47	2.16
Total	10.48	11.70	3.77	10.04	6.54	6.04	9.22

Source : Commonwealth Grants Commission Working Papers for 1982 Review of Tax Sharing Entitlements

New South Wales and South Australia, and to a lesser extent Victoria, spend significantly more per capita on concessions than do the other States. Concession expenditures far outweigh service expenditures in these States, but in Queensland and Western Australia service expenditures outweigh concession expenditures. Since 1980-81 there have been changes with New South Wales trying to move concessional expenditure onto Local Government, and South Australia funding electricity concessions through the welfare budget.

EMERGENCY RELIEF AND OTHER

In the standard budgets this is effectively a residual category and includes such program areas as emergency cash assistance, emergency accommodation, services for Aborigines, and residual family welfare services. The expenditure is not large, and varies considerably among the States. State per capita expenditure rankings (from Table 3.5) are as follows:

	$
Western Australia	14.36
South Australia	6.67
Queensland	5.02
Six States	4.61
New South Wales	3.90
Tasmania	3.53
Victoria	1.57

Expenditure in Western Australia stands out from the other States and the notable feature of this is that of the $14.36 per capita $10.59 is spent in separately listed Aboriginal services, about 20% of which comes by way of Commonwealth special purpose grants. Queensland also has a high Aboriginal population and of its $5.02 per capita expenditure, $3.08 is specifically directed to Aboriginal programs, earmarked by the Commonwealth.

INCOME SUPPORT AND SERVICE SUPPORT

One of the common assumptions in social welfare policy in Australia is that the functional breakdown between the Commonwealth Government and the State Governments is that the Commonwealth provides income support while the States provide services. The Commonwealth certainly spends huge amounts on income support, but analysis of the data from the standard budgets presented in Table 3.10 shows that the States are involved in income support.

TABLE 3.10 PER CAPITA WELFARE SERVICES EXPENDITURE FROM COMMONWEALTH GRANTS COMMISSION STANDARD BUDGETS BROKEN INTO INCOME SUPPORT AND SERVICES, 1980-81

	NSW $ per cap	VIC $ per cap	QLD $ per cap	SA $ per cap	WA $ per cap	TAS $ per cap
(1) Welfare Services	27.94	27.89	20.13	35.75	38.51	24.15
(2) Pensioner Concessions	9.57	8.04	1.64	9.17	2.68	3.57
(3) Emergency Assistance	1.70	0.97	0.64	(2.13)[a]	(3.06)[a]	2.73
(4) Transport Concession[b]	4.45	2.47	0.45	3.08	2.91	0.60
(5) Total Income Support (2+3+4)	15.72	11.48	2.73	14.38	8.65	6.90
(6) Other services for welfare[c]	16.67	18.88	17.85	24.45	32.77	17.85
(7) Total Welfare (5+6)	32.39	30.36	20.58	38.83	41.42	24.75
(8) Income Support as % of total (5/7)	48.5	37.8	13.3	37.0	20.9	27.9
(9) Income support as % of total welfare less Commonwealth payments[c]	49.9	39.4	13.6	40.3	22.1	29.2

Notes : (a) estimated from State sources

(b) transport concessions are in Grants Commission budgets under business undertakings but are equivalent to other forms of concessions

(c) Commonwealth specific purpose payments treated by inclusion method (see Tabl3 3.3) have most impact in SA and WA.

N.B. Totals may not always balance due to rounding

Source: Authors' construction from C.G.C. 1982 working papers and C.G.C. 1982b.

In the table we have brought together transport concessions to pensioners and beneficiaries, emergency assistance and rate, water, and other pensioner concessions, and treated them as income support measures. These are then compared to the service components of Welfare Services expenditure, and it can be seen that in five of the States at least 20% of Welfare Services expenditure is of an income support nature. It is highest in New South Wales, 48.5%, and followed by Victoria, 37.8%, and South Australia, 37.0% (line 8, Table 3.10). However, when allowance is made for Commonwealth specific payments, the proportion of income support is greater (line 9), especially in South Australia where it moves above 40%.

With current rises in numbers of pensioners and beneficiaries the concessions will continue to rise —probably at a rate faster than the rise in funds available for services. The conclusion that can be drawn from this is that the States are having to make do with transfers from the Commonwealth which indicate a slow-down in their rate of growth. At the same time absolute need is on the rise, necessitating an increase in income support which, although supposedly a Commonwealth function, comprises a significant and probably expanding proportion of State Welfare Services expenditure.

IV

THE DEPENDENCY OF THE STATES

THE DYNAMICS OF FEDERAL-STATE FINANCES AND SOCIAL WELFARE

Having examined the Federal-State context of social welfare and noted the need and expenditure assessments, this chapter turns to the dynamics of fiscal federalism over the past decade, and in particular its impact on the financial position of the States and the relevant social welfare ramifications.

On the surface it appears that Commonwealth payments to the States have been healthy over the past decade. Payments grew from $2,623 million in 1972-73 to $9,908 million in 1981-82, to an estimated $10,953 M. in 1982-83 (Commonwealth Budget Paper No.1, 1982-83 Table 1, p.329). This represents an overall growth of 317% and an annual compound growth rate of 15.4%. The growth has been neither regular nor constant, with compound growth in the first five years of the decade at 17.7% per annum, and only 13.1% in the second five years (See Table 4.1). Figures 4.1 and 4.2 (pp.68/69) portray this graphically in both current and constant dollars.

TABLE 4.1 COMPOUND GROWTH RATES OF COMMONWEALTH GENERAL GRANTS TO STATES, OUTLAYS, AND RECEIPTS 1972-73 TO 1982-83

	General State and Local Grants %	Outlays %	Receipts %
1972-73 to 1977-78	17.7	21.3	14.1
1977-78 to 1982-83	13.1	12.0	19.8
1972-73 to 1982-83	15.4	16.5	16.9

Source: Calculated from Commonwealth Budget Paper No. 1, 1982-83; Table 1, p. 329.

While there has been an absolute growth in general payments, as a proportion of Commonwealth budget outlays they have fallen. In 1972-73 general payments to the States, the Northern Territory and to Local

Authorities comprised around 24% of budget outlays. By 1982-83 this had fallen to around 21% (Commonwealth Budget Paper No.1, 1982-83, Table 2, p.330). As was shown in Table 4.1 general payments grew more slowly over the decade than either Commonwealth outlays or Commonwealth Receipts. While general grants have grown slowly, specific purpose grants have fluctuated widely. Table 4.2 shows how specific purpose payments moved from under one quarter, up to almost one half and back to one third of Commonwealth payments to the States. Table 4.3 shows the distribution by State over time.

TABLE 4.2 PROPORTION OF COMMONWEALTH GENERAL AND SPECIFIC PURPOSE GRANTS TO STATES, 1971-72 TO 1982-83

	Specific %	General %
1971-72	22.5	77.5
1972-73	25.8	74.2
1973-74	36.0	64.0
1974-75	45.2	54.8
1975-76	48.6	51.4
1976-77	44.5	55.5
1977-78	43.5	56.5
1978-79	41.8	58.2
1979-80	41.4	58.6
1980-81	42.1	57.9
1981-82	33.0	67.0
1982-83	34.8	65.2

Note: "Specific" includes specific purpose payments recurrent and capital.

"General" includes tax sharing, additional, special and health grants as well as general purpose capital funds including Loan Council borrowing.

Source: Commonwealth Budget Paper No.7, Various Years (see for example, 1982-83 paper, Table 70, p.116.

Figures 4.1 and 4.2 show the fluctuations in different types of grants in real terms over the period. While it is reasonable to assume that the Whitlam era growth rate in Commonwealth-State grants (particularly specific purpose payments) would probably have been impossible to sustain even without the economic slow-down, it nevertheless remains the case that the States had to adjust to a significant change in the rate of Commonwealth grants (particularly capital) at the same time as a down-turn in their economies. They became caught between increased needs and reduced growth after a period of sharp expansion.

TABLE 4.3 PER CAPITA STATE DISTRIBUTION OF COMMONWEALTH GRANTS 1973-74, 1977-78 AND 1982-83

	1973-74			1977-78			1982-83		
	General $	Specific $	Total %	General $	Specific $	Total %	General $	Specific $	Total %
NSW	123.34	42.25	86.0	265.56	201.50	89.3	524.77	217.62	88.9
VIC	121.17	48.55	86.9	254.81	202.65	88.0	508.80	242.33	89.9
QLD	165.77	42.31	108.4	373.29	188.35	106.3	652.46	206.74	102.6
SA	185.49	52.08	130.1	391.90	225.26	124.2	656.25	318.50	118.5
WA	203.93	52.39	129.6	427.05	242.67	125.9	784.83	233.16	119.9
TAS	253.96	55.79	171.6	513.95	214.77	156.9	854.85	319.64	155.4
SIX STATES	145.63	46.18	100.0	311.20	206.00	100.0	586.31	235.86	100.0

Notes: (1) General includes additional and special grants.
(2) Total, which includes loan council borrowings is the total Commonwealth Grant as a percentage of the average Commonwealth Grant for the six states.
(3) 1982-83 figures are estimates.
(4) Hospital cost-sharing remained under specific for SA and Tas in 1982-83.

Source: Commonwealth Budget Paper No.7, various years.

The welfare role of the States which stood on the threshold of a move away from residual functioning was constrained by funding limitations. These limitations must be seen against a backdrop of recessionary induced social difficulties as well as expanded community expectations, which were highlighted by some of the specifically funded programs of the early and mid 1970s.

FIGURE 4.1 COMMONWEALTH GRANTS TO THE STATES, BY TYPE
1969-70 to (est) 1982-83
$ million

FIG 4.1(B) (CONSTANT 1979-80 DOLLARS)

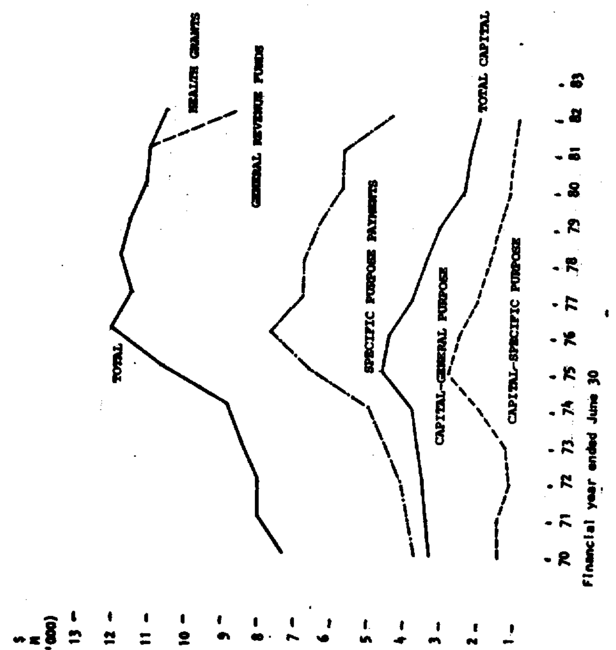


FIG 4.1(A) (CURRENT DOLLARS)

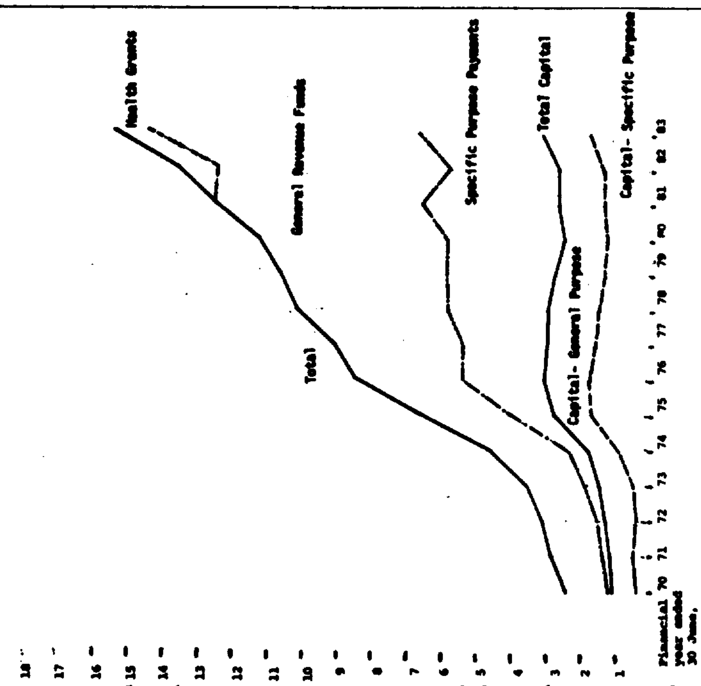


Fig 4.1(B)

Notes: 1. Grants are cumulative and represented by the area between the lines except for 'total capital' and 'total' which are represented by the heavy lines.

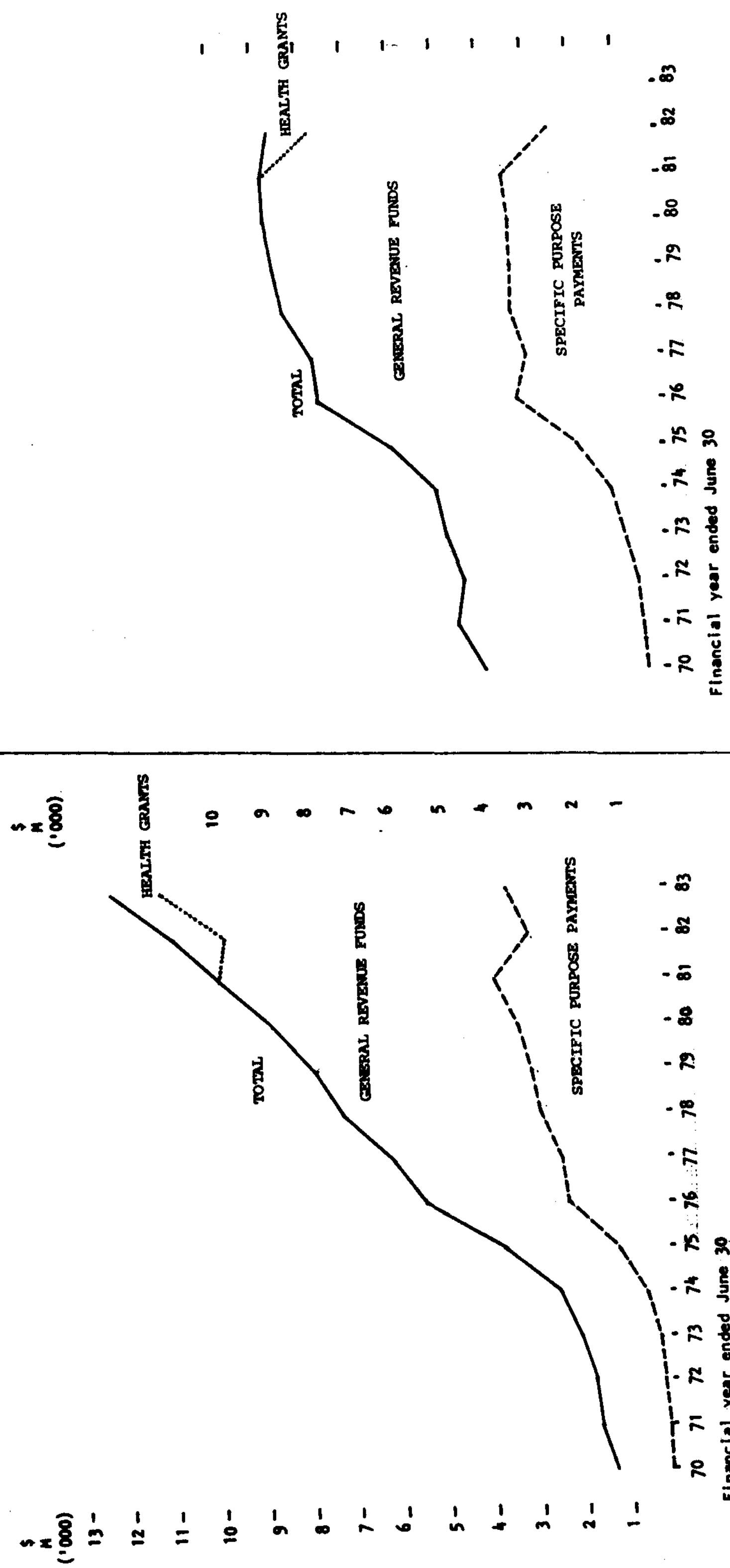
2. Deflators used are the Implicit Price Deflators from the Australian National Accounts. For recurrent expenditure the deflator is that for Public Final Consumption Expenditure and for capital that for Fixed Capital (Public) Expenditure.

Source: Commonwealth Budget Paper No.7, various years (see 1982-83 Paper, Table 70; p.116); Australian Bureau of Statistics Quarterly Estimates of National Income and Expenditure, December Quarter 1982, Cat.No.5206.0, Table 42 and unpublished estimates provided by the Bureau.

FIGURE 4.2 COMMONWEALTH GRANTS TO THE STATES FOR RECURRENT PURPOSES, 1969-70 to 1982-83 (est)
$ million

FIG 4.2(B) (CONSTANT 1979-80 DOLLARS)

FIG 4.2(A) (CURRENT DOLLARS)



(For notes and sources see Figure 4.1)

"NEW FEDERALISM" AND ITS IMPACT ON THE STATES

The Commonwealth Government clearly has the upper hand in determinations of funding for the States. At the Premiers Conferences held in 1976 a series of changes to the sharing of personal income tax revenues was argued upon. These were incorporated in a number of "Points of Understanding", (discussed together with the tenets of the tax-sharing agreement above). The major element of the new understanding was, that beginning with 1976-77, a specified proportion of personal income tax collections would be earmarked for distribution to the States as the "total States' entitlement". The actual proportion was to be 33.6 per cent of income tax collection; this represented the ratio of financial assistance grants to personal income tax receipts in 1975-76.

Three guarantees applied under the personal income tax sharing arrangements:

(i) there was a permanent guarantee that a State would not receive less, in absolute terms, than it received the previous year;

(ii) there was a guarantee which applied until the end of 1979-80 that a State would not receive less in a given year than what it would have received had the previous financial assistance grant formula continued to apply;

(iii) there was a guarantee applying only in 1980-81 whereby each State would not receive less in real terms than it received in 1979-80. For this purpose the movement in the Consumer Price Index, for each State capital, for the four quarters to March 1981, compared with the corresponding quarters of the previous period was to be used as the measure of inflation.

The four smaller States however were to remain eligible for special assistance through the Grants Commission. The changes were embodied in the States (Personal Income Tax Sharing) Act, 1976. In October 1977 it was decided that tax entitlements would be related to actual tax in the previous year so as to reduce uncertainty about the size of collections. The percentage was to be 39.8% of the previous year's collection which was equivalent to the level in 1976-77. Specifically excluded from the arrangements were special income tax surcharges introduced by the Commonwealth. These changes were incorporated in States (Personal Income Tax Sharing) Amendment Act 1978 as was the right of a State to levy extra income tax or provide a rebate on personal income tax. (No State government has chosen to introduce such a levy).

In the "Points of Understanding" it was agreed that the Commonwealth government would keep the States fully informed and consulted and considered in any budget or taxation changes which might affect their share of grants. From 1977 to the 1983 change of government there have been two prominent changes relating to these points of understanding. First the importance of specific purpose payments has diminished, and second two independent reviews of grants relativities have taken place, the results of which have effectively been ignored. It seems as if the Commonwealth, having been party to an agreement incorporating certain points of understanding did not work actively to uphold it, and could be accused of ignoring, undermining or breaking this agreement.

Prior to the June 1981 review the Commonwealth had unilaterally made a series of moves which affected the revenue base for distribution to the States. The introduction of tax indexation in 1976 and changes in tax rates announced in the 1980 budget for example, reduced tax receipts by $636 million and reduced the growth in grants from 17.7% to 13.5%. Subsequent changes to half-indexation and its abolition were also Commonwealth decisions but they at least improved the position of the States by restoring the rate of growth in Commonwealth receipts.

In 1981 the Commonwealth passed the States (Tax Sharing and Health Grants) Act and the new health arrangements spelt the end of joint cost sharing of hospitals replacing it with specific health grants covering the running of hospitals, community health and school dental programs (this did not apply in South Australia or Tasmania, both of which had longer cost-sharing agreements with the Commonwealth than had the other States). It was an integral part of this new funding scheme that the Commonwealth would adjust health grants to the States for that amount it thought it could earn by the levying of fees. Therefore for a State not to charge fees, or to do so at a level less than the Commonwealth estimates would reduce its funds.

At about the same time as the health changes, the Commonwealth reviewed its functions, and decided to withdraw from certain program areas and transfer responsibility for others (such as urban public transport, soil conservation and adult migrant education) to the States. Although general revenue dollars went up (Fig. 4.2b) in real terms, the States lost out.

The main feature of the 1981 Act in respect of tax sharing was a move after a transitional year (1981-82), to a total tax base instead of the former net personal income tax collections base. The main Commonwealth taxes included in the base are income tax (personal and company), sales tax, customs duty and excise duties. The tax pool had changed, and so too did the amount available to the States. Although the States had added responsibilities, particularly in health, the Commonwealth arbitrarily held growth in total grants to 9% (11.4% when the additional functions are considered), when under the previous arrangements the growth would have been 16.6%. In this period the term "tax-share" became "tax grants".

TABLE 4.4 DISTRIBUTION OF STATE POPULATION AND COMMONWEALTH GRANTS

PER CENT

	Recommended by Grants Commission 1981	Recommended by Grants Commission 1982	Actual 1981-82	Estimates 1984-85	Population December 1981
New South Wales	32.21	30.95	30.15	29.9	35.86
Victoria	23.26	22.91	22.26	22.1	27.01
Queensland	20.69	21.08	19.53	21.5	16.23
South Australia	10.19	10.71	11.28	10.8	9.01
Western Australia	9.88	10.41	12.00	11.3	8.98
Tasmania	3.87	3.93	4.77	4.5	2.91
SIX STATES	100.00	100.00	100.00	100.0	100.00

Notes: (1) Columns may not add due to rounding.
(2) Figures for columns one and two have been adjusted for 1981 Census figures.
(3) The 1981-82 distribution represents general additional and and special grants only, due to the difficulty in comparing health grants for that year.

Source: (i) Authors' calculations using Grants relativities. C.G.C., 1982a, Table 7-8, p.216.

(ii) Population figures from Australian Bureau of Statistics, Australian Demographic Statistics Quarterly, December Quarter 1982, June 1983, Cat. 3101.0.

(iii) 1984-85 estimates reported in Australian Financial Review 28/6/1982, p.3.

Former Prime Minister Malcolm Fraser, speaking at the time of the 1982 Premiers Conference said of the second Grants Commission review: "we cannot say that the Grants Commission (1982) Report will be fully implemented at the end of three years..." He promised that by 1984-85 the Commonwealth would have gone "some significant way" towards its full adoption (Sydney Morning Herald, 26/6/82, p.2). Table 4.4 shows the distribution of grants recommended in the two Grants Commission reviews and compares these to 1981-82 actuals, 1984-85 projection (made by the Commonwealth at the 1982 Premiers Conference) and the December 1981 population. It can be seen from the table that the gainers in 1981-82 were still the smaller States. The 1984-85 estimates show the then governments's intention of transferring some resources from three smaller States to Queensland, with New South Wales and Victoria marginally worse off.

As was shown in Table 1.2 (above, p.10) about 67% of State raised revenues came from payroll tax, stamp duties and motor vehicle taxes. 70% of Commonwealth revenue comes from income tax, and 80% of this comes from individuals. Over the past decade the Commonwealth's proportion of all taxes has increased while that collected by the States has declined (Table 4.5). The States' taxation mainstays are no longer reliable growth areas. The narrowing of State taxes and the abolition of death duties (a substantial revenue raiser) has grossly diminished the States' tax base.

TABLE 4.5 <u>PERCENTAGE OF TOTAL TAXES COLLECTED, BY LEVEL OF GOVERNMENT 1981-82</u>

	Commonwealth Authorities %	State Authorities %	Local Authorities %
1972/73	78.7	16.6	4.7
1977/78	79.7	16.0	4.3
1981/82	81.0	15.1	3.9

<u>Source</u>: Australian Bureau of Statistics, <u>Taxation Revenue, Australia, 1981-82</u>, Cat. 5506.0, p.6.

The decline in payroll tax as a result of increases in group exemptions and increases in unemployment is not likely to be reversed in the near future (especially with recession induced pressures for wider exemptions or even abolition of the tax). Furthermore there is no reason to expect any growth in motor vehicle taxes or stamp duties, and what growth areas there have been (liquor and gambling taxes) have contributed comparatively few dollars. The consequence of this is a likely increase in the dependency of the States. One area which is being explored by some States as a possible growth area is that of financial institutions duties and another is some type of rent resources tax —though this is a potential conflict area with the Commonwealth. Tables 4.6 and 4.7 show the cumulative effect on the States of tax changes in the past decade and give the State breakdowns. The dependence of the States is directly related to size, with Tasmania most dependent then Queensland, South Australia and Western Australia grouped together, and significantly more dependent than the two largest States.

WELFARE AND FEDERALISM

At the end of the 1970s the Australian welfare state was in a state of confusion. Expenditure on income transfers had reached record levels on all measurement criteria, while the percentage of the population estimated to be in poverty increased relative to Henderson's 1973 assessment. The Australian Council of Social Service continually asserted that two million Australians were in poverty. The Commonwealth government believed its income security record commendable, but critics pronounced it a failure. Notwithstanding recent expenditure levels Australia had not been a big spender in social welfare when compared to similarly wealthy countries and alarming increases in the growth of income support payments were foreshadowed. Groenewegen (1983) pointed out that prospects for public sector growth in Australia were not encouraging, while Mathews argued (1983) that Australian income tax collection was a shambles.

In the midst of global recession, chronic unemployment, apparently permanent high inflation and uncertain energy futures, questions of human well-being push themselves to the fore, but with considerably less manifest consensus about political issues than a decade ago. A concerted attack, electorally endorsed, has put the welfare state under threat. In the industrialised nations the recent exponential growth of welfare state activity has come to an abrupt halt. The ideological debate is being recast with both careful and crude dissections of the rights, shares, and claims of citizens,

TABLE 4.6 STATE TAXES AND COMMONWEALTH GRANTS AS A PERCENTAGE OF TOTAL STATE RECEIPTS, 1972-73 AND 1981-82

	1972-73		1981-82	
	State Taxes %	Commonwealth Grants %	State Taxes %	Commonwealth Grants %
NSW	43	51	41	60
VIC	41	55	39	59
QLD	29	63	27	67
SA	26	64	24	69
WA	24	66	26	68
TAS	18	69	20	71
SIX STATES	36	57	33	64

Notes: (i) Percentages and total outlays may add to more than 100% due to negative interest, rent, etc. items.
(ii) Northern Territory figures are included in all States.

Source: Calculated from Australian Bureau of Statistics, Government Financial Estimates, Australia 1982-83, Cat. 5501.0, various tables.

TABLE 4.7 PER CAPITA STATE TAXES, COMMONWEALTH GRANTS AND STATE OUTLAYS, BY STATE, 1972-73 AND 1981-82

	1972-73			1981-82		
	State Taxes $	Commonwealth Grants $	State Budget Outlays $	State Taxes $	Commonwealth Grants $	State Budget Outlays $
NSW	153	184	393	521	1276	1369
VIC	137	183	374	517	1314	1359
QLD	110	234	423	377	1387	1542
SA	107	265	482	354	1459	1548
WA	110	299	519	406	1591	1637
TAS	106	404	719	369	1813	2023

Note : See Table 4.5.
Source: As per Table 4.6.

old and young, taxpayers and non-taxpayers, property owners and non-owners, able bodied and disabled, employed and unemployed, dependent and independent.

More money than ever before is being spent on social welfare. More demands than ever before are being placed on welfare systems. More than ever before there is confusion about what our welfare state ought to do and, in fact, is doing. More than ever before there is uncertainty about how the public sector will cope with genuine and obvious need. There is intense political debate about whether we can afford to continue the level of expenditure, with one camp arguing that we cannot continue to spend the amounts that we do, and the other that we cannot afford not to spend as much, if not more, than we do at present. The arguments about whether the State has gone beyond its capacity must be countered with arguments about the desired nature of our social compact and the place within it of all people.

It is no wonder, then, that there is confusion and lack of direction in the lobby groups and coalitions which are trying to develop a protective barrier for those about whom they care. It is no wonder that claims for more from well entrenched groups lead to the exclusion of less entrenched groups. With exclusion from the labour market a horrifyingly real prospect for many people, it is not unnatural that a fragmented scramble for position and for inclusion can easily be seen as the dominant direction of welfare politics.

Social policy, as the great theorist Richard Titmuss pointed out, is basically about choices between conflicting political objectives and goals, and how they are formulated; about what constitutes the good society, and that part of a good society which culturally distinguishes between the needs and aspirations of social beings, in contrast to the needs and aspirations of economic beings. Today's key policy issue is that of how to distribute limited resources, whereas a decade ago issues of resource redistribution was at the fore.

Different interpretations of social welfare need different interpretations of federalism for their attainment. A residual view of welfare with a prime focus on cash payments to individuals fits well with a weak central government interpretation. Most of the ameliorative services are carried out by State Governments, and the Commonwealth writes cheques for various categories of pensioners and beneficiaries. An interpretation of social welfare that goes well beyond income security to community functioning, and places emphasis on citizen involvement and citizen participation in quality of life issues, needs a federalism in which a strong central government can develop a national strategy in co-operation with its target populations, i.e. communities themselves. In other words, what is required is a central/local axis, with the States perhaps acting as brokers. This notion of an axis was abandoned in 1976 as general revenue grants took on a larger role.

Many of the fiscal difficulties associated with broadening social expenditure relate to two factors, the increasing concentration of tax powers within the hands of the Commonwealth, and the narrow tax base, especially the narrow definition of income. Not only does the Commonwealth find the revenue limited, but so too do the States. The consequences of Commonwealth fiscal control for the "social wage" are important. It has been estimated that Commonwealth social wage expenditure (education, health, social security and welfare, housing, urban services and some payments to the States) has fluctuated over the past decade from 44.2% of Commonwealth outlays in 1971/72; to 61% in 1975/6; to 54.7% in 1981/2; to 55.1% in 1982/3 (Harding, 1982: 18). If Australians are to experience a standard of living no lower than that of the 1970s then in the face of Commonwealth fluctuations, greater attention will focus on the States to make up the shortfall. Do the States have either the capacity or the willingness?

This monograph has attempted to show that social welfare expenditure levels in the Australian States are strongly influenced by the Commonwealth government and that the States have become increasingly dependent on the Commonwealth, and this affects their welfare expenditures. There are great variations among the States in welfare expenditure and in assessed need and ability in meeting that need, and Australian federalism regards differential expenditure patterns as an ideological *sine qua non*, though need variations are a matter of general concern. Revenue variations among the States have been noted and these have been and will continue to be matters of heated discussion.

The centralisation of taxation, increasing dependence on income taxes, the high level of avoidance, and the lack of taxes on capital, have and will have far reaching consequences on the social welfare system and on the economy generally. In terms of the way the States fit into our federal system after all the changes of the past decade, Professor Mathews has recently written,

> After six years of the new arrangements, it is clear that they do not meet the requirements of an effective tax sharing system... Far from increasing State fiscal autonomy and responsibility, they have increased the degree of Commonwealth control over State finances and hence the centralisation of the Australian public finances considered as a whole. The Commonwealth has continued to make unilateral decisions about the shared revenue base and the structure of the income tax system, the general effect of which has been to reduce state entitlements except to the extent that guarantee provisions (operated) ...
>
> The effect of the Commonwealth's tight control over grants and loan allocations, combined with a reluctance on the part of the States to adjust their own taxes and charges, has meant that the Commonwealth is now in a position to exercise the same kind of expenditure control over individual State governments as over its own departments and instrumentalities...
>
> The Commonwealth's stop-go policies on personal income tax indexation have caused State tax sharing funds to fluctuate from year to year, not in accordance with economic conditions and financial needs so much as with decisions taken by the Commonwealth Government for political reasons. (Mathews, 1982: 8 and 11)

Our welfare futures, it can be seen are not just appendages to our social or economic systems, but are intimately connected with the politics of taxation and the politics of federalism.

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