20

PUBLIC FINANCE

INTRODUCTION

This Chapter examines State and Commonwealth Government finances during the fifty year period since 1934. Commencing with the recovery from the Depression, it considers restraints imposed during the Second World War and the period of reconstruction up to 1952. It then looks at aspects of government funding, taxation, and expenditure during the subsequent decades, and concludes with a study of Commonwealth-State relations.

During the period the public sector finances reflected the changing government priorities. In the early years governments concentrated on public works including transport. After the war governments began to increase their spending on areas that previously had been considered mainly the domain of private organisations, e.g., hospitals. The late 1960s and early 1970s saw an acceleration of this trend and by the early 1980s the major expenditure in Victoria was on education. On the receipts side in the 1930s nearly 90 per cent of receipts came from State sources whereas by the 1980s this had decreased to 60 per cent. Together with this increase in Commonwealth contributions to State finances the nature of payments changed from payments solely under the Financial Agreement to the current method of Financial Agreement payments plus a share of Commonwealth tax collections.

1934 TO 1939

These were years of gradual and somewhat irregular recovery from the Depression of 1929 to 1933, during which world prices of major Australian exports had fallen by 50 per cent, unemployment had risen to nearly one-third of the labour force as measured by trade union statistics, and overseas borrowing to finance either private investment or public works had become impossible.

The fall in the local prices of exports had been arrested by the devaluation of the Australian currency in 1931. In subsequent years prices for agricultural commodities recovered somewhat but even in peak years such as 1934 and 1937 they remained below their 1928 level. Recovery was more marked in manufacturing industry, the competitive position of which, against imports, had been improved in 1931 by an Arbitration Court decision reducing the real basic wage by 10 per cent, as well as by the currency devaluation. Subsequently employment in Victorian manufacturing rose by 29 per cent, from 156,000 in 1933-34 to 201,000 in 1938-39, and the unemployment rate amongst registered trade union members was approximately halved during the same period.

The Depression had imposed great strains on State and Commonwealth budgets. Assistance to primary producers and unemployment relief had increased public expenditure at the same time as public revenue from income tax, customs duties, and railway charges had fallen because of the decline in income, trade, and activity. In June 1931 all the governments agreed to adopt the "Premiers' Plan" with the object of eliminating budget deficits by drastic cuts in public expenditure and by whatever increases in taxation were feasible. In accordance with the Plan, special State taxes on incomes were imposed for unemployment relief purposes; public service salaries and pensions were reduced by 20 per cent in money terms, or 10 per cent in terms of constant prices; and State debt charges were reduced by the conversion of outstanding government bonds to lower interest rates, compulsorily in the case of internal loans and on redemption or maturity in the case of external loans.

The result was that the Victorian budget, which had shown a deficit of nearly $5m in 1930-31, would have shown a surplus by 1934-35 had it not been for the continuing operating deficit of the State railways and to a lesser extent of the State Coal Mine at Wonthaggi which provided the railways with a supply of fuel independent of shipments from New South Wales. Railway traffic was, of course, adversely affected by the slow recovery of agriculture from the Depression, but it was also subject to increasingly severe road competition from motor transport. This situation contrasted sharply with that which had prevailed for many years when horse-drawn traffic had provided virtually the only competition to the railways, and the State budget had regularly benefited from railway surpluses. The pattern of increasing railway deficits being carried on general revenue was to become a permanent feature of State finances, except during the years of the Second World War.

BUDGET ANALYSIS : COMPONENTS OF BUDGET RESULT, VICTORIA, 1934-35 TO 1939-40
($'000)

Year	Revenue	Expenditure	Surplus/deficit	General account	Railways	State Coal Mine
1934-35	50,622	50,924	− 302	984	− 1,116	− 170
1935-36	52,076	52,310	− 234	944	− 1,004	− 174
1936-37	54,442	54,384	58	− 1,140	− 804	− 276
1937-38	55,230	55,168	62	844	− 478	− 304
1938-39	53,972	55,546	− 1,574	606	− 1,926	− 262
1939-40	56,206	56,192	14	1,096	− 966	− 116

Source: Victorian Treasurers' Statements, Finance.

As indicated by the budget analysis in the table above, the railways continued in deficit for the remainder of the 1930s. This was despite the takeover by the State in 1937-38 of $60m of the existing railway debt of $160m, and the consequent transfer of debt charges amounting to $2.6m from the railways to the general account. The table also shows that from 1934-35 onwards State expenditure inclusive of railways rose by an average of 2 per cent per annum. Except for a temporary fall back in 1938-39, State revenues generally kept pace with this increase, the lag in railway revenue being offset by an increase in tax revenue. By 1939-40 total State tax revenue was $21.5m, of which $9.5m was derived from the State income tax and a further $4m from the special income tax for unemployment relief purposes. The only direct Commonwealth payments to the State of any significance during this period were road grants and the fixed annual amounts of $4.3m in aid of interest charges as required by the Financial Agreement of 1927, but under that agreement the Commonwealth also made annual contributions on behalf of the State to the National Debt Sinking Fund. In 1939-40 the State's debt charges, including its own sinking fund contributions as well as interest payments, actually exceeded railway expenditure as the largest expenditure item in the State budget.

Following the 1931 debt conversion, borrowing to finance State public works had been resumed on the local market but not overseas. Victoria's outstanding overseas debt was reduced as it matured and in 1934-35 the Commonwealth took over part of the State indebtedness that had been incurred for soldier settlement purposes. New borrowing on the local market could, under the terms of the Financial Agreement, only be undertaken by the issue of Commonwealth securities and with the approval of the Loan Council as to amounts, terms, and conditions. The provisions of the Financial Agreement applied only to State Government borrowing and not to that by local authorities or statutory corporations. The transfer of functions previously exercised by government departments to specially created statutory corporations, which could then borrow independently of the Loan Council, provided a means of avoiding the restrictions of the Financial Agreement. In order to close this possible loophole, the Loan Council decided in June 1933 that the borrowing programmes of semi-governmental authorities should be considered in conjunction with those of the State Governments. At its 34th meeting in May 1936 the Loan

Council passed a resolution which consolidated all existing rulings and resolutions of a general nature regarding borrowings by semi-governmental and local government authorities. This resolution formed the basis of what came to be known as the "Gentlemen's Agreement". The rules were revised from time to time but their basic purpose continued to be the achievement of an overall control of the amount and terms of all borrowing operations in the public sector.

1939 TO 1945

At the outbreak of the Second World War in September 1939, the Victorian economy had still not fully recovered from the Depression. Trade union unemployment had almost fallen back to its pre-Depression level, but even so still stood at over 10 per cent of the labour force. The agricultural sector was still facing world prices that were only about 60 per cent of their pre-Depression level. Moreover there had been no resumption of public borrowing overseas, with the result that public works were restricted to the level that could be financed within Australia.

With the outbreak of war there was a progressive expansion in the Armed Forces which numbered 721,000 by 1944. By the same date unemployment had fallen to 1.2 per cent and the economy was transformed from a state of "under-employment" to one of "over-full employment". In some sectors the resultant labour shortages were relieved by the entry into the labour force of many persons who would not normally have been employed before the war. In particular, the number of women workers increased by 25 per cent between 1939 and 1945, and although this percentage subsequently declined somewhat, women have remained an important and integral part of the labour force throughout the post-war period.

The agricultural sector was probably more adversely affected than the other sectors of the economy by wartime labour shortages. In addition, its overseas markets were curtailed by shipping difficulties, and its supplies of fertiliser from Nauru were cut off after the Japanese occupation of that island. In Victoria the area under cultivation and the level of rural employment both declined substantially during the war years. Production was so adversely affected by a succession of severe drought years that difficulty was experienced in maintaining supplies to civilians and to allied troops in the South Pacific area. The resultant rise in some agricultural prices had, by the end of the war, increased the value of agricultural production despite the fall in its volume. In these circumstances the pre-war tendency for the manufacturing sector to expand relative to the agricultural sector was accelerated. The disruption of shipping services which deprived the agricultural sector of export markets, protected the manufacturing sector from import competition. Manufacturing industry, therefore, expanded to fill the gap left by goods that had previously been imported, and — as a major manufacturing centre — Victoria particularly benefited from this expansion. Manufacturing employment in Victoria increased by 27 per cent during the war years, and a firm foundation was thus laid for further expansion after the war.

For the duration of the war, however, manufacturing output was subject to strict Commonwealth controls, designed to restrict the output of consumer goods and to give priority to activities essential to the war effort, such as metal working, arms and munitions, general engineering, and machine tools. Of the increased wartime employment in Victorian manufacturing industry, two-thirds occurred in the metals and machines sub-sector. As a result the State acquired a large measure of industrial maturity and a nucleus of skilled labour familiar with modern industrial techniques and processes. In addition to controls over manpower and production, Commonwealth regulation also extended to consumption, with a general system of price control and the rationing of certain foodstuffs and other goods, notably petrol. Price control was of particular importance in the fight against inflation and also had a direct bearing on State finances since it extended to charges for public services such as railway fares.

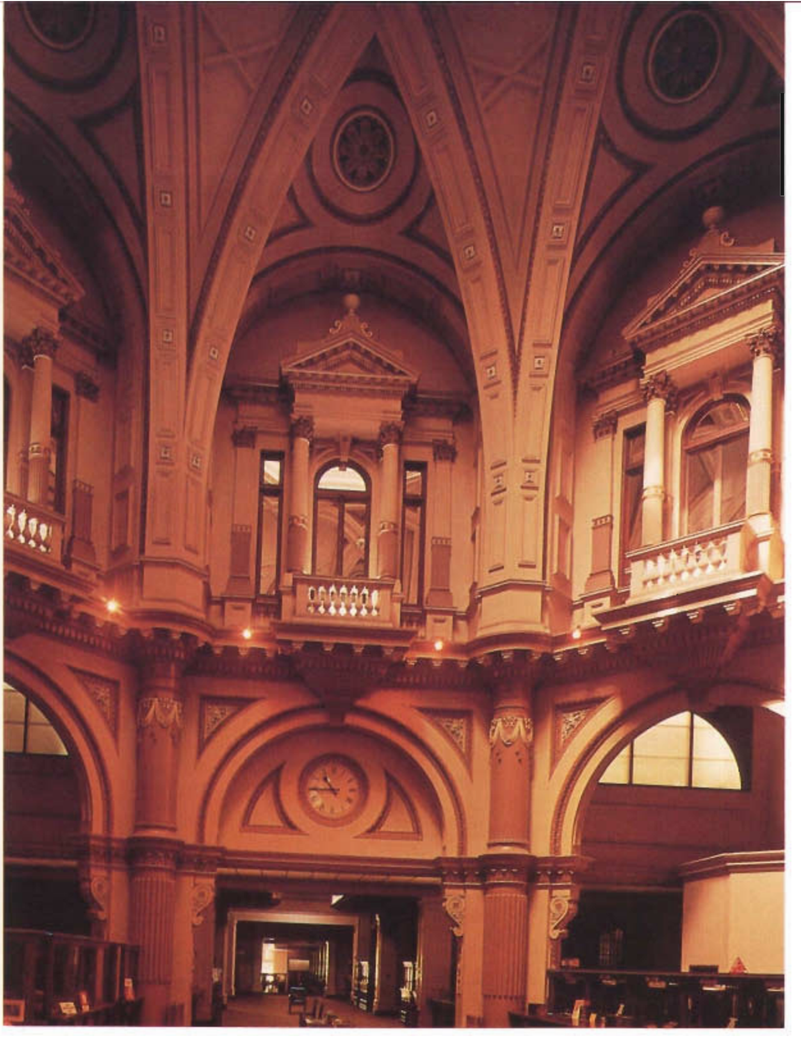
The war relieved Victoria of some of the pressures on government finances that had persisted since the Depression. Between 1939-40 and 1944-45 unemployment relief expenditure fell from \$4m to under \$1m on current account and from over \$3m to practically nothing on loan account. Few other reductions were possible on current account, partly

This paper manufacturing machine, Maryvale No. 4, has a capacity of 175,000 tonnes per year.

Australian Paper Manufacturers Limited

The Premier of Victoria, Hon. J. Cain (left), and the Prime Minister of Australia, Rt. Hon. R. J. L. Hawke, jointly unveil a plaque to commemorate the official opening of the World Trade Centre, 30 September 1983.

Port of Melbourne Authority



The CBA Banking Chamber in Collins Street, designed by Lloyd Tayler and Alfred Dunn and completed in 1893, is one of Melbourne's finest bank interiors.
National Trust of Australia (Victoria)

The spacious Collins Street, Melbourne, branch of the Statewide Building Society.
Statewide Building Society

The Trading Floor at the Stock Exchange of Melbourne, in the early 1970s.

The Stock Exchange of Melbourne Limited

Interior of the Totalizator Agency Board branch in Flinders Lane, Melbourne, shortly after it opened for business on 6 October 1961.

Totalizator Agency Board

Bourke Street, Melbourne looking east in the 1950s.
G.J. Coles and Coy. Limited

Bourke Street looking west in the 1940s showing Melbourne's major retail stores.
National Library of Australia

Thousands of people queued at the doors of Coles 200 Bourke Street store on opening day, 22 September 1955.
G.J. Coles and Coy. Limited

because of past contracts. Two categories of such non-adjustable expenditure were debt charges and Public Service pensions which, as shown in the following table, remained at about $17m and $2m, respectively, throughout the war years. The most that could be done in respect of such expenditure was to avoid new commitments. It was also not politically practical to reduce expenditure on services such as education and health (included under "other" in the table) but these services were stabilised at their 1939-40 level until the last few years of the war, when this restraint could no longer be maintained. Another factor operating against reductions in current expenditure was the introduction by the Commonwealth of a 2.5 per cent payroll tax in July 1941. From that date the total wages cost of State employees was increased by about $0.6m per annum.

STATE BUDGET EXPENDITURE: VICTORIA, 1939-40 TO 1944-45

Year	Railways	Debt charges *(a)*	Pensions	Other	Total
		$'000			
1939-40	15,286	16,916	2,084	24,664	58,950
1940-41	17,142	17,222	2,050	24,218	60,632
1941-42	21,864	17,594	2,024	25,158	66,640
1942-43	26,734	16,750	1,994	27,502	72,980
1943-44	25,190	16,800	2,026	27,600	71,616
1944-45	24,504	16,862	2,012	28,396	71,774
		PER CENT			
1939-40	25.9	28.7	3.5	41.8	100.0
1940-41	28.3	28.4	3.4	39.9	100.0
1941-42	32.8	26.4	3.0	37.8	100.0
1942-43	36.6	23.0	2.7	37.7	100.0
1943-44	35.2	23.5	2.8	38.5	100.0
1944-45	34.1	23.5	2.8	39.6	100.0

(a) Includes railway debt charges.
Source: Department of Management and Budget.

Expenditure on loan account could be reduced more readily since a lower priority necessarily attached to the possible future benefits of public works than to immediate defence needs. Thus Victorian Government loan expenditure fell from nearly $8m in 1939-40 to little more than $2m in 1942-43. For the year 1944-45 loan expenditure rose again to over $7m, some of this increase reflecting the greater priority being attached to post-war reconstruction, such as the provision of $1.5m for public housing after a break of three years. But some of the increase was of a more temporary nature like the provision of $1.25m for drought relief following the devastating 1944 drought, and in 1945-46 total loan expenditure fell back to under $4.5m.

A major factor in the wartime restraint on the level of State public works was the method by which loan expenditure was financed. At the outbreak of war the State borrowing programmes for 1939-40 had already been approved by the Loan Council and despite expectations to the contrary, the programmes were left intact. In 1940 the Council resolved to appoint a Co-ordinator General of Works to assess the priorities to be attached to State public works in the light of wartime needs, and the loan programmes for 1940-41 were cut by nearly one-half. In August 1942 the Council agreed that for the duration of the war the States should endeavour to finance their strictly limited programmes not from the proceeds of public loans but from their own cash resources, as was permissible under the Financial Agreement. The purpose of this arrangement was to ensure that there would be no public loan raising on behalf of the States. The table on Loan Expenditure Funding shows that from 1941-42 onwards Victoria's loan expenditure was entirely financed from loan repayments to the State, accumulated balances in State trust funds, and Treasurer's advances. The purposes to which trust fund balances could normally be applied were specified in the instrument setting up each trust, but under the Public Accounts Act the balance of the Public Account could be invested in State securities and temporarily used for general expenditure purposes, provided that the trust funds were subsequently reimbursed. As shown in the table $8.5m was also raised in 1944-45 from the banking system by the issue of Treasury Bills, and used as a temporary borrowing for liquidity purposes. With the cessation of public borrowing during the war, there was a temporary halt to the growth of the Victorian public debt, which stood at $359m in 1939, and a corresponding halt to the growth of annual debt charges, as referred to previously.

The largest wartime contribution to the improvement in Victorian Government finances, however, was made by the State railways. In the 1930s railway deficits had been a persistent burden on the State budgets, but from 1940 onwards railway surpluses again became available and the State budgets benefited accordingly. The turnaround in railway results was occasioned by a substantial increase in traffic. Wartime mobilisation required the movement of men and equipment on a massive scale, and the carriage of supplies to the Allied Forces offset reductions in the movement of agricultural products for export. Moreover, the introduction of petrol rationing by the Commonwealth diverted to the railways much traffic previously carried by road. The increased demands thus made on the Victorian railways taxed their existing equipment, lines, and rolling stock to the limit. Capital expenditure could not be cut to the same extent as that on other public works, and operating expenditure increased by some 70 per cent from $15.3m in 1939-40 to a peak of $26.7m in 1942-43 as indicated in the table on State Budget Expenditure. This increase in current expenditure was, however, more than matched by the increase in railway revenues from under $20m in 1939-40 to $33.6m in 1942-43 and $31.8m in 1943-44. It will be seen from the table on State Revenues that railway income was the most buoyant form of State revenue during the war years. Over the period as a whole the railways were able to show a surplus not only on operating account but also after meeting their debt charges and other fixed costs.

STATE REVENUES: VICTORIA, 1939-40 TO 1944-45

Year	Taxation	Railways	Other	Total
		$'000		
1939-40	25,422	19,628	13,912	58,962
1940-41	25,096	22,090	13,730	60,916
1941-42	25,848	28,058	14,318	68,224
1942-43	(a)24,600	33,658	16,232	74,490
1943-44	(a)24,812	31,828	16,216	72,856
1944-45	(a)25,558	30,832	16,082	72,472
		PER CENT		
1939-40	43.1	33.3	23.6	100
1940-41	41.2	36.3	22.5	100
1941-42	37.9	41.1	21.0	100
1942-43	(a)33.0	45.2	21.8	100
1943-44	(a)34.1	43.7	22.2	100
1944-45	(a)35.3	42.5	22.2	100

(a) Including Commonwealth tax reimbursements.
Source: Department of Management and Budget.

The most significant long-term impact of the war on the finances of Victoria concerned its taxation revenue. Unlike railway receipts, taxation revenue remained virtually stable at about $25m throughout the war, but this stability concealed a fundamental change in its form. The introduction of uniform income taxation by the Commonwealth in 1942 entailed the loss of the State's ability to levy income tax and its replacement by income tax reimbursement payments from the Commonwealth.

LOAN EXPENDITURE FUNDING: VICTORIA, 1939-40 TO 1944-45
($'000)

Year	State Loans Repayment Fund	Loan Council	Excess funds in State trust accounts	Treasurer's advances	Total
1939-40	1,624	6,238	..	64	7,926
1940-41	1,766	3,456	..	248	5,468
1941-42	1,848	..	1,894	—	3,742
1942-43	1,288	..	776	8	2,072
1943-44	1,880	..	270	20	2,170
1944-45	3,152	..	4,116	38	(a)7,306

(a) Excluding $8.51m raised by the sale of Treasury Bills to the banking system.
Source: Department of Management and Budget.

Prior to the war the Commonwealth and State Governments levied separate income taxes but had joint collection arrangements and common tax returns, Victoria, for example, collecting both its own and Commonwealth income taxes from its citizens. The States were, however, much more dependent on income taxes than the Commonwealth, which had a substantial alternative source of taxation revenue in its exclusive power to levy customs and excise duties. In 1939-40 income taxes accounted for less than one-fifth of the Commonwealth's total tax revenue but over half that of Victoria's. In other States the proportion was even higher, but there were wide differences in State tax rates and degrees of progression; for example, South Australian tax rates were relatively heavy on low incomes and Queensland rates were relatively heavy on high incomes.

As war expenditure increased, the Commonwealth was faced with the need to increase its tax revenue by imposing higher and more steeply progressive tax rates, but under the Constitution its tax rates had to be uniform in all States. Because of the differences in State tax rates, however; the scope for increasing Commonwealth tax rates was limited to that which was available in the State with the highest rate at any given level of income. A corollary of this was that in other States with lower tax rates the Commonwealth could not gain access to their full taxable capacity.

During 1941 the States rejected several Commonwealth proposals designed to minimise the effect of their differing tax rates, or alternatively, to induce them temporarily to vacate the income tax field. Following a change of government later in the year the new Commonwealth Treasurer (Hon. J. B. Chifley) appointed a small committee which reported in April 1942 in favour of a uniform income tax scheme. It recommended that the States should retire from the income tax field from 1 July 1942 and that the Commonwealth should then become the sole income taxing authority for the duration of the war and one year thereafter, the States being compensated for their loss of revenue by annual Commonwealth grants. These proposals were again rejected by the States but within a few weeks the Treasurer introduced a series of bills providing for:

(1) A significant increase in Commonwealth income tax rates which, particularly at higher income levels, would have left little scope for imposition of a State tax even if other barriers had not been imposed;

(2) an Income Tax Reimbursement Act providing for grants to the States to compensate them for the loss of income tax revenue, a condition of the payment of a grant being that the State did not impose an income tax;

(3) an amendment of the Income Tax Assessment Act to provide that no taxpayer should pay his State income tax until he had met his liability for Commonwealth income tax (this became known as the "priority clause"); and

(4) the transfer to the Commonwealth of the staff, records, equipment, and accommodation of the State income tax offices.

After these bills had passed both Houses of the Commonwealth Parliament, action was taken by Victoria and three other States (Queensland, South Australia, and Western Australia) to challenge the constitutional validity of the legislation in the High Court. Basically, the States contended that the four Acts must be considered together as a scheme or plan, the substance of which was a legislative prohibition against the exercise by the States of their power to levy income tax, and which neither the taxation nor the defence power of the Commonwealth would authorise. The High Court unanimously rejected this contention. Treating the Acts separately, the Court with some minority dissents held all four valid: the Rates Act under the taxation power; the Reimbursement Act under the power in section 96 to grant financial assistance to any "State under such conditions as the Parliament thinks fit"; the "priority clause" as a matter incidental to the taxation power; and the Wartime Arrangements Act under the defence power.

Under the Income Tax Reimbursement Act grants to the States were based on the average collections of State income tax during the two financial years 1939-40 and 1940-41. Apart from a supplementary grant given to South Australia in 1945-46, these grants were almost unchanged throughout the war years.

The States were thus effectively protected against any fall in their major source of taxation revenue, but on the other hand, they were no longer free to increase their receipts from this source by increasing their tax rates and so financing increased expenditure, or making increased calls on real resources.

Similar results with respect to a relatively minor source of State tax revenue followed from the extension of the uniform tax system to entertainment taxes later in 1942. Entertainment taxes had originally been imposed during the First World War by both Commonwealth and State Governments. Such taxes fell mainly on cinema admissions and in the days before television this form of sumptuary expenditure seemed an eminently suitable subject for increased taxation in wartime. As in the case of income tax, however, the scope for increased Commonwealth entertainment taxation was limited to that available in the State with the highest tax, since differential rates could not be imposed in States with lower taxes or in Queensland which had no entertainment tax at all. Under the uniform tax system, Victoria and the other four States which had previously levied entertainment taxes withdrew from the field and received from the Commonwealth, which then imposed a uniform entertainment tax at a higher rate, compensatory reimbursement grants based on their previous collections. State entertainment tax revenue was thus pegged for the duration of the war, like State income tax revenue, at its pre-war level.

1945 TO 1952

With the cessation of hostilities in August 1945, the process of reconstruction and re-conversion of the war economy to peacetime needs became the over-riding objective of economic policy. The difficulty of the task was enhanced by the severe seasonal conditions which drastically reduced agricultural production and farm incomes in 1944-45 and 1945-46. There were also serious shortages of many consumer goods resulting from reduced supplies of imports and cutbacks in the output of manufacturing industry. Shipping shortages contributed not only to the reduction of imports but also to the disruption of export markets for agricultural produce. Serious arrears had accumulated in the maintenance of equipment, and in both private and public investment, including that in railways and other State enterprises. Particularly important was the backlog in housing and building generally, although some government munition factories and annexes were available for conversion to peacetime industrial uses.

The primary necessity was to find civilian employment for personnel released from the Commonwealth Defence Forces which numbered about 650,000, or one-fifth of the working population in June 1945. The fear that demobilisation would be accompanied by widespread unemployment prompted the Commonwealth Government, like other Western governments, to publish a White Paper on Full Employment. At the time it was not anticipated that post-war unemployment could fall below about 3 per cent, but despite the release of nearly 500,000 service personnel in 1945-46 alone, the number of vacancies exceeded the number of unemployed, and labour shortages appeared in many essential industries. Under the Commonwealth Reconstruction Training Scheme some 20,000 ex-service personnel received further full-time professional training, mainly at tertiary educational institutions in the States. Similarly, with the objective of assisting ex-servicemen to enter agricultural industry the Commonwealth concluded Land Settlement Agreements with the States providing for the sharing of certain costs including capital costs in the less populous States. The relief of labour shortages in other essential industries was also a major objective of Commonwealth efforts to stimulate post-war migration. In the immediate post-war years shipping difficulties precluded any substantial inflow of migrants, but from 1949 onwards migration made a substantial contribution to the labour market although it also imposed an additional burden on State housing, education, and community services.

Instead of high unemployment, the post-war years were characterised by a degree of inflation higher than had been experienced at any time since the First World War. The retail price index number rose by 16 per cent in the three years following the war, and by 77 per cent in the next five years. From 1945 onwards, increasing export prices raised farm incomes, and after the middle of 1946 increasing import prices raised domestic living costs and stimulated wage increases. Industrial disputes led, in their turn, to higher costs and lower output in a number of essential industries, the most serious instance being the national coal strike from June to August 1949. In September 1949, the devaluation of the Australian pound (along with that of the pound sterling) against the American dollar contributed to a further round of inflation, and in June 1950 the outbreak of hostilities in the Korean War created boom conditions for wool and other primary products.

During the Second World War the central banking powers of the Commonwealth Bank had been greatly strengthened by wartime regulations, and these powers were continued under the Banking Act of 1945. At the same time the Bank was reconstituted and the independence of the Bank Board substantially curtailed, but further legislation in 1947 to nationalise all the private trading banks was held by the Courts to contravene section 92 of the Constitution.

However, the main emphasis of Commonwealth anti-inflation policy was less on monetary restrictions than on direct controls. Thus the wartime system of price ceilings was continued although in a somewhat less rigid form. After the expiration of the National Security Act in December 1946, price controls were extended for a further two years but a referendum to give the Commonwealth permanent control over rents and prices was rejected by the electors in May 1948. Later in that year both rent and price controls were transferred to the States which issued uniform lists of goods and services subject to control, but the number of items covered was only about 20,000 instead of 50,000 as previously. Over the next few years the range of controls was further reduced but a degree of uniformity was maintained by regular conferences of the State Prices Commissioners. In order to maintain its price ceilings the Commonwealth had paid price stabilisation subsidies amounting to $35m in 1947-48, but after the transfer of price control to the States these were phased out with a few exceptions, the most important being those for tea and coal which continued until the mid-1950s.

In Victoria price control, originally introduced in wartime, finally terminated in December 1954. In order to restrain the demand for scarce commodities the Commonwealth also continued consumer rationing after the war for some imports (e.g., tea and petrol), and for a number of locally produced consumer goods. Sugar rationing ceased in 1947, and meat and clothes rationing in 1948. Petrol rationing was declared invalid in 1949 and the Chifley Government's attempt to restore it became an issue at the 1949 election. Shortly after the election it was finally abolished by the new Menzies-Fadden Government.

Despite these efforts to keep inflation under control, its continuation until after the collapse of the Korean War wool boom in 1951 inevitably had serious effects on Victorian finances. Some expenditure items which had loomed large before the war, such as debt charges and pensions, remained fairly stable in the early post-war years, but other items such as education and health expanded rapidly. In particular social services expenditure (defined broadly to include net expenditure from consolidated revenue and special funds on education, hospitals and health services, law and order, etc.) rose from $11.1m in 1938-39 to $14.7m in 1944-45 and to $53.6m in 1951-52. About three-quarters of this increase could be ascribed to higher wage and salary rates. The majority of the remainder could be accounted for by a 25 per cent increase in population, but a beginning had also been made on the task of improving the quality of the services provided. Before the war, expenditure on these services in Victoria had been lower on a per capita basis than in any other State, and nearly 22 per cent below the average for all States. By 1951-52 Victoria was no longer the State with the lowest per capita expenditure on social services, and the gap which separated it from the average for all States had been reduced to 8 per cent.

The inflationary increase in State expenditure tended to outrun the revenue available under the uniform tax system. The taxes still available to the States were not only limited in number but relatively inelastic in the sense that yields did not rise automatically with increased incomes, but generally could be obtained only by legislating for higher tax rates, which invited political controversy and delay. The income tax reimbursements payable by the Commonwealth to the States were originally allocated in proportion to the revenue which the States had collected from their own income taxes before the war, when Victoria was a low income tax State. In the face of rising post-war expenditure Victoria was thus confronted with difficult revenue problems. After substantial budget surpluses during the war years, only nominal surpluses were recorded in 1945-46 and 1946-47.

At a Premiers' Conference in January 1946 the Commonwealth, relying on the High Court's 1942 rulings, announced its intention to continue uniform income tax (but not entertainment tax) on a permanent basis. It was decided that for 1946-47 and 1947-48 the total income tax reimbursement grant would be $80m, of which Victoria's share would be $17.7m. Following further discussions the grant for 1947-48 was increased to $90m, of which Victoria's share was $19.7m. but the State's budget result for that year was nevertheless a deficit of $1.1m. Even larger deficits were incurred in subsequent years despite the introduction of new bases for the determination of the aggregate grant and also for its allocation among the States. The base grant of $90m was henceforth adjusted each year by a formula that took account of annual increases in population and average wages in the country as a whole. The allocation among the States of the aggregate grant was to be changed over a ten year period from the original basis of "compensation" for loss of previous tax revenue to a new basis of "needs", as indicated by a second formula which took account of relative population adjusted for numbers of school-age children and sparsity of settlement. In most States, however, budgetary difficulties continued to be encountered, and the formula grants had to be supplemented by *ad hoc* grants. In Victoria budget deficits were recorded each year except in 1953-54 and 1954-55.

On the revenue side difficulty was also experienced in raising charges for State services sufficiently to meet increasing costs. This was particularly so in respect of railway freight rates and fares. During the war, charges for State services had been pegged by agreement between the Commonwealth and the States. After this arrangement came to an end, Victorian Railways charges were increased from 1 October 1947. The operating costs of the railways were adversely affected not only by rising wage rates but also by the cost and uncertainty of black coal supplies from New South Wales, particularly during the national coal strike of 1949. The situation was so serious that in 1948-49 and again in 1949-50 the Victorian Government spent several million dollars importing black coal from overseas, although some of this expenditure was charged against loan fund and some was incurred for non-railway purposes. In the latter part of 1950 there was an extended railway strike in the State and as a result railway revenue failed to cover working expenses in 1950-51. Even larger operating losses were incurred in the two following years despite repeated increases in railway freight rates and fares. During these years the railways were increasingly exposed to road competition. The first Holden motor car came off the production line at Fishermens Bend in December 1948, registrations of new motor vehicles increased rapidly thereafter, petrol rationing was finally abolished in February 1950, and State attempts to restrict interstate road freight were declared by the Courts to contravene section 92 of the Constitution. In these circumstances railway revenue remained insufficient to cover working expenses until 1953-54, when the introduction of diesel locomotives was bringing the age of steam to an end, thereby relieving the railways of their dependence on black coal and permitting substantial operating economies. By this time also the railways were beginning to reap the benefits of post-war capital expenditure on new rolling stock and track rehabilitation. This expenditure was largely financed out of reserves that had accumulated during the war, when all but the most essential maintenance work had been deferred.

In addition to railway rehabilitation the State undertook substantial capital investment in the post-war years on a wide range of development projects ranging from road works, public housing, and land purchases (under the 1945 Agreement with the Commonwealth on War Service Land Settlement) to such spectacular projects as the Morwell brown coal open cut, the Kiewa hydro electric scheme, and the Eildon Dam.

Expenditure upon road works was financed partly from the proceeds of State motor taxation and partly from Commonwealth Aid Road grants, which had been provided from 1925 onwards. After 1931 the aggregate grants were determined by the proceeds of specified rates of customs and excise duties on petrol, and were allocated among the States in accordance with a "three-fifths population and two-fifths area" formula.

Post-war public works other than roads were financed principally from loans raised on behalf of the States, or by semi-governmental and local authorities, under the overall control of the Loan Council. The 1927 Financial Agreement, which had established the Loan Council, was amended in 1944 to provide for the funding of wartime Treasury bills issued to finance some State public works, and of earlier Treasury bills outstanding from the Depression years. Memories of the Depression (which focused on the need for a balanced budget without overseas borrowing) were still sufficiently strong to preclude any general resumption of overseas borrowing, but the first of a series of loans from the International Bank was raised shortly after the 1949 change of the Commonwealth Government. Otherwise the local market was able to meet the loan requirements of the States and their authorities for the first five or six years after the war. Thus in 1950-51 the loan funds available to Victoria for State works amounted to $72m, and a slightly larger amount was available for semi and local governmental borrowing. In addition \$17m was raised for public housing construction and advanced to the State at 1 per cent below the market rate of interest, under the Commonwealth-State Housing Agreement of 1945. The total number of new dwellings completed rose steadily after the war, and in Victoria the number reached 21,358 in 1950-51, of which 2,700 had been built under the Commonwealth-State Housing Agreement.

In most subsequent years the total loan programmes for State works and housing outstripped the capacity of the local bond market on what were regarded as acceptable terms. In 1951-52 the total works and housing programme for all the States was reduced by the Loan Council from \$750m to \$450m (of which Victoria's share was \$132m) but the market only yielded \$250m.

The shortfall was made good by the Commonwealth which subscribed \$200m as a "special loan" from its own resources, including proceeds of United States dollar loans. For 1952-53 the total State requests again amounted initially to over \$700m and the Commonwealth proposed that this total be reduced to \$360m. At the May 1952 Loan Council meeting this proposal was outvoted by the States in favour of a programme of nearly \$500m but there was no means of implementing such a large programme, since the market could yield only \$110m and the Commonwealth was not prepared to increase its support beyond a "special loan" of \$250m. For the following six years the total State loan programme for works and housing remained at \$400m or less per annum, and the post-war inflation was for the time being effectively controlled.

1952 TO 1962

Seen in retrospect, these years were a period of relative stability and solid progress. The new Consumer Price Index (introduced in 1960) showed a rise over the period of only 2.5 per cent per annum and the minimum weekly male wage rate rose by only about 3 per cent per annum. Automatic cost of living adjustments to the basic wage were abandoned in September 1953, and subsequent increases in the basic wage or in margins were the outcome of awards by Commonwealth or State wage fixing authorities. The increased significance of domestic as against external sources of potential inflation was highlighted by the abandonment of import controls and the emergence of the interest rate as a policy instrument.

Import controls were progressively removed on non-American goods after the war but were reimposed in March 1952 after the Korean War wool boom. A few months later the bond rate, which had never exceeded 4 per cent in the twenty years since the 1932 conversion, rose to 4.5 per cent. In 1956 import controls were further tightened and the bond rate was increased to 5 per cent. In February 1960, however, import controls were effectively abandoned, and in November of that year the bond rate was increased to 5.4 per cent. Following the subsequent rise in imports and tighter monetary conditions, the number of persons on unemployment benefits rose to 57,000 in June 1961. This was twice as high as had been experienced at any date in the previous ten years, and so seemed alarmingly high at the time.

Steady progress occurred in the development of the economy in a period with low inflation and low unemployment. The population of Australia rose by nearly 3 million from 7.5 million at the 1947 Census to 10.5 million at the 1961 Census. Over one-third of the increase was the result of immigration. In the same period, 1947 to 1961, about one million persons were added to the labour force, principally in the manufacturing, construction, and service industries (including government services). Among the new developments of the period were the Snowy Mountains hydro-electric scheme, the expansion of the motor vehicle industry, the introduction of television (coinciding with the 1956 Olympic Games in Melbourne), the building of several large oil refineries and aluminium plants, and in the service sector the establishment of hire purchase facilities, private savings banks, and building societies. The building industry expanded as a direct result of population growth. The number of occupied private dwellings rose from nearly 1.9 million at the 1947 Census to nearly 2.8 million at the 1961 Census. In 1950, the number of new houses and flats completed was nearly 80,000 per annum, including about 10,000 per annum built under Commonwealth-State Housing Agreements. Under a new agreement in

1956 the Commonwealth provided advances to the States for the construction of houses for sale as well as for rental.

It was not until the last two years of the decade that the $400m ceiling imposed in 1952 on Loan Council programmes for State works and housing was slightly lifted, but Commonwealth support by way of "special loans" still continued to be necessary to meet the shortfall in public borrowings. Such support was not available for semi and local governmental loan programmes approved by the Loan Council under the 1936 Gentlemen's Agreement. However, from 1949-50 onwards borrowing by these authorities was higher in Victoria than in any other State, including New South Wales. This was a reversal of the situation in the 1930s when semi-governmental borrowing in Victoria had lagged behind that in New South Wales.

In addition to higher loan expenditure on public works, rapid economic development also required an increase in State budget expenditure, even higher than that necessitated by increases in prices, wage rates, and interest rates. As a result of population growth there was an increase in the demand for State services in the education, health, and welfare fields. For example, school enrolments more than doubled from 750,000 at the 1947 Census to 1,600,000 at the 1961 Census, and education costs therefore increased not only because of higher teachers' salaries but because more teachers had to be employed. In these circumstances budget deficits were inevitable unless revenue could also be increased faster than prices, wages, and interest rates. Under the uniform tax system, however, the States were dependent for a substantial proportion of their revenue on the tax reimbursement grants, the total amount of which was adjusted upwards, according to the 1947 formula, in proportion to total population and the increase in wages over the previous twelve months. The inadequacy of the formula is indicated by the fact that the tax reimbursement grants had to be supplemented each year by *ad hoc* grants, the allocation of which was not necessarily in the same proportion as the formula grants.

In July 1952 the Prime Minister announced that the Commonwealth was prepared to restore income taxing rights to the States. The administrative and technical problems involved were referred to a committee of Commonwealth and State Treasury officials and a report was presented to a Premiers' Conference in February 1953. The Commonwealth and the State Governments failed to agree on the extent to which the income tax field should be vacated by the Commonwealth. In consequence, nothing came of these negotiations.

Budget difficulties continued in Victoria. Surpluses were recorded in 1953-54 and 1954-55, but in each of the next four years revenue lagged behind expenditure and substantial deficits were recorded. Victorian social services expenditure increased not only because of a relatively high rate of population growth but also because of the effort to raise Victorian standards of service to a level comparable with other States. As noted above, Victorian per capita expenditure on social services was still below the average for all States in 1951-52, but the gap was virtually closed by 1956-57. The burden of debt charges on the Victorian budget was also relatively high because railway revenue did not suffice to meet any railway debt charges. In New South Wales on the other hand, railway revenue was sustained by heavy coal and mineral traffic and was generally sufficient to meet both operating expenses and debt charges. The net effect of the uniform tax system appeared to be a transfer to other States of about $14m collected from Victorian taxpayers.

In December 1955 and May 1956, legal challenges to the constitutional validity of uniform taxation in peacetime were made by Victoria and New South Wales and the cases were heard together before the High Court in April 1957. This time, only the State grants and the "priority clause" were attacked. The ground of challenge was that the Acts were inconsistent with the constitutional independence of the States, and that the 1942 decision should either be over-ruled as incorrect, or set aside as resting essentially, on the scope of the defence power in time of war, and therefore now irrelevant.

The High Court unanimously rejected the challenge to the Grants Act. It held that the Commonwealth could impose any condition it liked on a grant paid in accordance with section 96 of the Constitution. Thus the Commonwealth in making a grant can impose a condition that the State shall not exercise one of its constitutional powers, in this case, the power to levy an income tax. By a majority, however, the Court declined to follow the 1942 decision on the "priority clause". It held that, in the Australian federal system, the claim to priority could not be supported as incidental to the taxation power.

In 1958 the Treasurer of Queensland announced in his budget speech that his State proposed to follow the three less populous States and apply for a special grant such as they received on the recommendation of the Commonwealth Grants Commission. Victoria thereupon submitted a similar application. The widely expressed dissatisfaction with the uniform tax system was thus brought to a head. Faced with the prospect of five claimant States the Commonwealth refrained from referring the two new applications to the Commonwealth Grants Commission and summoned several Premiers Conferences in 1959 at which it proposed:

(1) To amalgamate within some new revenue grant arrangements the large and increasing grants which were then being paid to supplement the tax reimbursement formula grants, and to devise a more liberal formula which would avoid the necessity for supplementary grants in the future;

(2) to reduce to two the number of States which would in future continue regularly to apply to the Commonwealth Grants Commission for recommendations for special grants, and to reduce the dependence of these States on special grants; and

(3) to arrive at a more generally acceptable basis of distribution of Commonwealth general revenue grants between the States.

The Commonwealth therefore suggested that the financial assistance grants should be determined for each State in the succeeding five years by adjusting the grant paid in 1959-60 in accordance with a formula based on movements in its population, and on annual increases in the level of average wages for Australia as a whole. The formula also incorporated a "betterment" factor, the effect of which was to increase by 10 per cent the average wages component of the formula. Thus, in any financial year subsequent to 1959-60, the grant payable to each State would be determined by varying the grant paid in the preceding year according to the change in the population of that State and 1.1 times the percentage increase in average Australian wages in the preceding year.

The effect of the new formula on the budgetary position of Victoria may be seen by comparing the annual percentage increase in the tax reimbursement and special assistance grants in 1958-59 with that in the financial assistance payments in 1959-60. In 1958-59 the increase was less than 6 per cent but in 1959-60 and again in 1960-61 it was almost 10 per cent. The State budget had shown a deficit of over $5m in 1958-59, but in the two succeeding years it showed small surpluses of $0.6m and $0.24m after various transfers to reserves. This improvement was, however, to be short lived. In 1961-62 the increase over the previous year in the financial assistance payment to Victoria dropped to less than 8 per cent, and although the budget was nominally balanced this was only after bringing into account $3.6m, received as Victoria's share of a special Commonwealth grant to the States of $20m in aid of activities to alleviate unemployment.

The years 1952 to 1961 also saw two other significant developments. The first was the growth of Commonwealth grants that could be used only for specific purposes, as distinct from general purpose grants like the financial assistance payments that could be used for any purpose at the discretion of the States. Almost the only specific purpose grants dating from before the war were those in aid of State interest charges under the 1927 Financial Agreement, and Commonwealth Aid Road grants which, as noted above, originated even earlier. The former are fixed until 1985 at $15.17m per annum (of which Victoria's share is $4.25m), but the latter have been reviewed and expanded at fairly frequent intervals.

The road grants came under mounting criticism in the 1950s on the two grounds that all, and not just part, of the proceeds of customs and excise duties on petrol should be used for road works, and that the allocation formula was held to be unduly favourable to States with large areas at the expense of Victoria and New South Wales. At the 1959 Premiers' Conference the Commonwealth therefore proposed to sever the link between road grants and customs or excise duties on petrol, but to provide a base grant rising from $80m in 1959-60 to $96m in the fifth year; to reduce the area element in the allocation formula from two-fifths to one-third (the other elements now being one-third population and one-third car registrations); and to provide a supplementary grant rising from $4m in the first year to $20m in the fifth, on a 1:1 matching basis with additional State expenditure.

Victoria's share of the grant on the old basis was about $14m in 1958-59, but on the new basis it rose to over $17m in 1959-60 and higher amounts in subsequent years.

Specific purpose grants were also introduced in new fields such as health and education. From 1948 until the mid-1970s the Commonwealth provided grants in aid of current and capital expenditure on State facilities for the treatment of tuberculosis. From 1955 until about the same date grants were also provided in aid of capital expenditure on State mental health institutions. These health grants were, however, soon overshadowed by those in aid of universities, which were introduced in 1951-52 for recurrent expenditure, and extended to capital expenditure in 1958. The university recurrent grants had to be matched on a 1:1.85 basis with State contributions and fee income, and the capital grants had to be matched on a 1:1 basis by the States. In 1959 a Universities Commission was established to advise and recommend Commonwealth grants on a triennial basis.

In a very different field the Commonwealth also provided nearly $32m between 1957-58 and 1962-63 for the construction of a standard gauge railway track between Melbourne and Albury. Of the total expenditure, 30 per cent was in the form of advances repayable by New South Wales and Victoria over fifty years. By eliminating any break of gauge between Melbourne and Sydney this project greatly facilitated interstate railway freight traffic.

The other development of significance for the future was an effort by the States to increase their revenue from the tax fields still available to them or from new taxes. Whereas higher specific purpose grants could be regarded as restricting State freedom to determine their own priorities, higher revenue from their own taxation resources increased that freedom.

The largest source of State tax revenue in the 1950s was motor taxation, the proceeds of which were increased because of higher tax rates as well as increased numbers of cars and drivers. However, most of the proceeds of motor taxation were used for road works instead of general revenue purposes. In Victoria, for example, most motor taxation proceeds were paid, along with Commonwealth Aid Road grants, to the Country Roads Board.

Two sources of general revenue which did expand relatively rapidly over the period were land tax and stamp duties. In Victoria the former was changed from a flat rate to a progressive basis in 1953, and stamp duties were extended in 1958-59 to new areas such as hire purchase agreements and certain types of insurance policies.

The abolition of Commonwealth entertainment tax in October 1953 left the way open for the States to reimpose their own entertainment taxes, but only Victoria, Western Australia, and Tasmania took advantage of the opportunity. As it happened, however, the advent of television soon deprived the tax of most of its revenue potential by reducing cinema attendances, and in December 1962 the tax was generally abolished, except that in Victoria it continued to be imposed on attendances at horse racing and trotting meetings until 1973.

More success attended State attempts to increase tax revenue from gambling. Prior to 1954 State lotteries were conducted in New South Wales, Queensland, and Western Australia. In Tasmania the Trustees of the Estate of the late George Adams were licensed under State legislation to conduct Tattersall's Lotteries but a large proportion of subscriptions came from outside Tasmania, and particularly from Victoria. From 14 July 1954, the Trustees transferred their operations to Victoria where they were granted a licence under new Victorian legislation which required the payment of 31 per cent of subscriptions to consolidated revenue for subsequent disbursement to the Hospitals and Charities Fund and the Mental Health Fund. Between 1954-55 and 1961-62 these payments amounted to about $6m per annum. Under an agreement between the Victorian and Tasmanian Governments in October 1960, Tattersall's Lotteries, although still based in Victoria, were authorised to establish agencies for the sale of tickets in Tasmania, 15.5 per cent of the value of such sales being paid to the Tasmanian Treasury.

State taxation of betting on horse races was of long standing but difficulty was experienced in taxing illegal off-the-course transactions. In August 1956 New South Wales legalised poker machines and licensed their use in sporting clubs and similar institutions. Despite the lucrative results no other State followed the New South Wales example. In

March 1961, however, Victoria legalised off-course totalizator betting and established a Totalizator Agency Board (TAB) with local branches to accept "investments".

1962 TO 1972

The years 1962 to 1972 saw the decline of Australia's traditional dependence on the export of wool and other agricultural products (principally to the British market) in return for manufactured imports (also principally from Britain). By the end of the 1960s mineral and coal exports rivalled agricultural exports in importance, and their main market was not Britain but Japan. In 1971-72 Britain ranked after both Japan and the USA as a market for Australian exports, and after the USA as a source of Australian imports. This realignment of Australia's trading relations was in part a response to Britain's decision to seek entry into the European Economic Community, negotiations for which were initiated in 1962 but not finalised until 1971. The necessary readjustments for Australia were, however, greatly facilitated by mineral discoveries, particularly of iron ore in Western Australia, coal in Queensland, and crude oil and natural gas deposits, particularly the off-shore fields in Bass Strait. The latter reduced Australia's dependence on imported oil from the Middle East at an opportune time—just prior to substantial price increases.

In addition to its long-term beneficial effects on the Australian balance of trade, resource development had a more immediate result in stimulating an inflow of private capital. This inflow was further increased by the international capital upheavals following the devaluation of sterling in 1968, and the revaluation of the US dollar in 1971. Australia was thus able to increase and diversify its foreign exchange holdings and in December 1972 the Australian dollar was appreciated against the US dollar.

As well as providing for the development of mineral resources, the Australian economy in the 1960s also had to provide for continued population growth. In the ten years between the 1961 and 1971 Censuses, the population increased by a further 2.25 million persons, about 40 per cent of the increase resulting from net migration. The addition to the labour force during this period was about I million persons, showing the effect of increased numbers of school leavers which itself reflected the rise in the birth rate in the immediate post-war years.

The combination in the 1960s of resource development, capital inflow, and continued population growth had all the ingredients of a boom, and this became evident on the stock exchanges in the second half of 1967. With some temporary pauses share prices rose to record heights over the next three years before the boom finally collapsed in February 1971. In the meantime, the Commonwealth Government had resorted to fiscal and monetary restraints such as higher interest rates. The long-term bond rate which had settled at 5.375 per cent in the mid-1960s, after having been reduced to stimulate recovery in 1962 and 1963, rose dramatically and reached 7 per cent in May 1970. It remained at this level through most of the following year, falling to 6 per cent in 1972.

The atmosphere of the boom years also fostered pressure for wage increases. Average weekly earnings (per employed male unit) rose by 5 or 6 per cent per annum in the mid-1960s, these increases including overtime and above-award payments as well as adjustments to the basic wage and margins for skill as determined by wage-fixing tribunals. In June 1967 the Commonwealth Arbitration Commission abolished the distinction between the basic wage and margins, so that future determinations at its annual national wage hearings related to the "total wage". From 1967-68 onwards the annual percentage increase in average earnings rose progressively, reaching 11.5 per cent in 1970-71.

Higher wages were not always offset by either higher labour productivity or lower profitability and in some cases were reflected by higher commodity prices.

In the early 1960s the Consumer Price Index was almost stable and in the mid-1960s it rose at the comparatively modest rate of about 3 per cent per annum. In 1970-71 and 1971-72, however, the Consumer Price Index rose by about 6 per cent per annum. Moreover in 1972 the monetary and fiscal measures adopted to check the inflation had their impact on employment, as they had done in 1961. In June of both years the number of persons registered for employment exceeded 100,000 or twice the level of the intervening years.

In these circumstances the States found themselves in increasing budgetary difficulties, despite the new system of financial assistance grants. Resource development required increased capital expenditure on public works and infrastructure generally. Continued population growth required both additional capital expenditure (e.g., on public housing) and also additional current expenditure on social services. Higher bond rates increased State debt charges. Higher wage and salary rates increased the budgetary impact of services such as education and health, and also of State business undertakings such as railways, the fares and charges for which could not be increased without difficulty. Higher unemployment prompted the Victorian government to provide new employment-creating activities as well as increased expenditure on welfare services.

Financial assistance

When the financial assistance grants were introduced in 1959 it was hoped that under the new formula annual supplementations would no longer be required, as they had been under the former tax reimbursement grant system, and it was therefore provided that the formula should run until 1965 before amendment. The States soon found, however, that the rate of growth of the financial assistance grants was too slow in relation to their increasing expenditure commitments, particularly in view of their limited tax powers. After the financial assistance grants had been in operation for only two years the employment situation prompted the provision in 1961-62 of additional assistance to enable the States to undertake "employment giving" activities, and similar assistance was necessary in the two following years. In Victoria a substantial proportion of these grants was used to assist the budget, but even so the 1963-64 budget showed a deficit for the first time since 1958-59. In the following year when the Commonwealth provided no additional assistance the Victorian budget was nominally balanced but only after substantial transfers from State reserve funds.

When the financial assistance formula came up for review in 1965 it was agreed after discussion with the Premiers to reduce the time lag required for population changes to affect the grants by using more up-to-date statistics, to raise the betterment factor applicable to wage increases from 1.1 to 1.2 per cent, and to make additional payments to some States, including a permanent increase of $1.2m to Victoria. A proposal to use more up-to-date statistics for wage changes was also eventually adopted in 1967, but otherwise the formula was to run without amendment until 1970. In the intervening years State deficits mounted steadily and supplementary grants were again provided for drought relief in 1966-67 and 1967-68 and for "budgetary difficulties" in 1968-69 and 1969-70. In 1967-68 Victoria incurred a budget deficit of $2.8m despite the receipt of $4.8m for drought relief. In the following year the deficit was $2.5m after the receipt of $3m for budgetary difficulties. In 1969-70 Victoria received $3.6m for budgetary difficulties but nevertheless incurred a record deficit of $15.4m, and on 30 June 1970 received a repayable advance of $10m to help finance the deficit.

In 1970 the financial assistance grants formula again came up for review. In February 1970 the State Premiers submitted a Joint White Paper entitled *The Financial Relationships of the Commonwealth and the States*, which presented not only a detailed analysis of the financial assistance formula but also a general review of the allocation of revenue resources and loan funds in relation to expenditure needs. After subsequent discussions the financial assistance formula was further liberalised. The basic payments were increased by $40m per annum, the betterment factor was raised to 1.8 per cent, and additional grants of $2 per head made to Victoria and New South Wales for the next five years.

However, before the end of the 1970-71 financial year, the States were confronted with exceptionally heavy wages costs resulting from a national wages decision in December 1970 and other awards affecting State employees. After requesting the States to effect economies and to increase taxes and charges wherever possible, the Commonwealth agreed to provide additional revenue assistance of $43m in 1970-71. The full year cost of these wage and salary awards had to be met in 1971-72 and for that year the additional revenue assistance was increased to $72.5m (including a repayable advance of $17.5m for New South Wales). Victoria's share of these additional assistance grants was $10.6m in 1970-71 and $13.6m in 1971-72 but the increase in the State's wages bill was estimated at $31m in the former year and $62m in the latter. From 1 July 1970 the Victorian consolidated revenue and loan funds were amalgamated into one account, known as the "Consolidated Fund", but on the old basis there was a revenue deficit of $13.6m in 1970-71 after budgeted expenditure had been reduced by $10.5m, and a deficit again of $6.7m in 1971-72.

State taxation

Confronted with continuing budget difficulties despite increased financial assistance and supplementary payments, the States turned their attention to developing or acquiring their own "growth tax", the revenue from which would escalate automatically with inflation like the Commonwealth's revenue from its progressive personal income tax. In its September 1964 Budget the Victorian Government announced its intention of introducing a "marginal" income tax payable by Victorian residents in addition to the Commonwealth income tax, and collected on behalf of the State by the Commonwealth Tax Commissioner. However the Commonwealth considered that such a tax would undermine the uniform tax system and was unwilling to participate in its collection unless it had the support of other States, which was not forthcoming. Victoria did not therefore proceed with its proposal.

In the Premiers' Joint White Paper of February 1970 it was again proposed that State income taxes should be reintroduced, not in addition to, but in partial substitution for the Commonwealth income tax. It was suggested that this be done by adapting to Australian conditions the Canadian system under which there would be "the one return, the one assessing and collecting authority, the one set of definitions, exemptions, etc. and the one basic tax schedule, but with the one variant— relative rates". The Commonwealth would partially withdraw from the income tax field and its withdrawal would be approximately offset by new State income taxes. The financial assistance grants could then be replaced by tax proceeds collected on behalf of the States, except insofar as the "less populous" States would need equalisation payments to compensate for their lower taxable capacity. This proposal was rejected by the Prime Minister mainly on the grounds that it would make the task of managing the economy more difficult, and might result in different tax rates in different States, as has indeed happened in Canada.

As a means of lessening their dependence on Commonwealth grants the States in the 1950s had increased and extended their stamp duties which came to rival motor taxation as a source of State revenue, with the important difference that the proceeds were all available for general revenue purposes. Uniform rates of stamp duty on share transfers had been imposed prior to the stock exchange boom of 1968 to 1971, and stamp duties on receipts had been extended to most business transactions. In 1966-67 Western Australia imposed receipt duties on wages and salaries, and in February 1968 similar legislation came into effect in Victoria, a receipts duty of 0.01 per cent being payable on wages, salaries, pensions, etc., in excess of $20 per week. At a Premiers' Conference in June 1968 the Commonwealth stated that it regarded such duties as income taxes and that account would need to be taken of them when the allocation of financial assistance payments among the States came up for review in 1970.

In the meantime State receipts duties on certain business transactions had become subject to legal challenge and in February 1970 the High Court handed down judgement in two test cases. In both the Court ruled that the duties constituted an excise, and that State receipts duties were constitutionally invalid to the extent that they applied to money received from the sale of new Australian manufactured goods.

Following these judgements the Commonwealth Government submitted to Parliament a Bill to protect the future revenues of the States by imposing on their behalf a Commonwealth duty on business receipts, but the Bill was defeated in the Senate. Thereafter receipts duties of all kinds ceased on 30 September 1970. In order to offset the loss to State revenues from the cessation of receipts duties, the Commonwealth made additional grants to the States of $59.7m in 1970-71. For subsequent years $88.4m was added to the formula base of the financial assistance grants in 1971-72. Victoria's share of these payments was $17.3m at the outset and $26m subsequently.

The increase in the wage and salary awards of State Government employees in 1970-71 affected the State budgets both directly and also indirectly by increasing their liability for Commonwealth payroll tax. In its September 1970 budget the Victorian Government included no appropriation for payroll tax and subsequently took out a writ in the High Court challenging the constitutional validity of Commonwealth payroll tax as applied to State Government employees. South Australia intervened in support of the challenge, but in a unanimous decision in May 1971 the Court upheld the validity of the tax and Victoria agreed to meet the arrears of payroll tax due to the Commonwealth in respect of 1970-71.

In June 1971 the Commonwealth and the States agreed that payroll tax should be transferred to the States and that their extra revenue from this source should be offset by corresponding reductions in the financial assistance grants. This transfer was intended as a means of meeting at least in part the need of the States for a growth tax since it was broadly based, grew almost directly in line with the economy, and was relatively simple to administer. For 1971-72 the financial assistance grants were reduced by $224m which was the estimated payroll tax collection at the pre-existing rate of 2.5 per cent over nine months, less certain adjustments. For 1972-73 and subsequent years the formula base of the financial assistance grants was reduced by $305m which was the estimated collection at 2.5 per cent over a full year, again less certain adjustments. From the date of the takeover the States jointly agreed to increase the payroll tax rate from 2.5 per cent to 3.5 per cent and it became the largest single category of State taxation, surpassing both motor taxation and stamp duties in importance.

Loan funds and debt charges

In the 1960s there was an increase in State expenditure on public works as well as on current services but, apart from roads, public works continued to be financed mainly from loan funds. The annual Loan Council borrowing programme for State works and housing in 1962-63 was $510m, as compared with the ceiling of $400m ten years earlier. However, by 1969-70 the programme had risen to $625.8m for State works and $132.2m for housing advances, a total increase of over 50 per cent. Over the same period borrowing by State semi-governmental and local authorities increased from $275.6m to $471.1m, or by 71 per cent. In Victoria the percentage increase in borrowing for State works and housing was about the same as in the other States, rising from $131.1m in 1962-63 to $193.4m in 1969-70. On the other hand, semi-governmental and local authority borrowing which had been relatively high in Victoria since the war rose by only 56 per cent, from $94.6m in 1962-63 to $147.3m in 1969-70.

For two years, 1962-63 and 1963-64, State works and housing programmes were financed entirely by public borrowing, mostly in Australia, and for the first time since 1950-51 no "special loans" were provided by the Commonwealth. However, for the rest of the decade public borrowings fell short of State loan programmes by annual amounts varying from 14 to 47 per cent, and the short-fall was made good by Commonwealth "special loans", the funds for which were ultimately derived from Commonwealth tax revenue. The States were thus required to pay interest on funds which the Commonwealth derived from taxpayers.

In their Joint White Paper of February 1970 the State Premiers called attention to the rise in State indebtedness since 1950, including both the public securities issued in respect of State works and Commonwealth advances for purposes such as housing, railway standardisation, and war service land settlement. Allowing for sinking fund balances, their net debt had risen four-fold from $2,484m in June 1950 to $10,676m in June 1969. The corresponding figures for Victoria were approximately $600m in June 1950 and $2,660m in June 1969.

By way of contrast the Commonwealth's position was shown to have changed from that of a net debtor to a net creditor over the same period. When direct advances to the States and holdings of Treasury bills and public securities by Commonwealth agencies were offset against securities recorded as issued on Commonwealth account, the net debt of the Commonwealth was $3,586m in June 1950 but by June 1969 this had been eliminated in favour of a small net credit of $204m.

The conclusion of the Premiers was that the States had needed to borrow, latterly at high interest rates, the whole of their requirement for capital purposes. At the same time the Commonwealth had been able to finance virtually all its capital works from revenue. State debt charges in 1967-68 were estimated at $531m of which only $245.4m or 46 per cent could be recovered, the remainder having been incurred in respect of schools, hospitals, developmental water supplies, etc., which could not be expected to produce net revenue to cover debt charges. Under the terms of the 1927 Financial Agreement, the Commonwealth was also required to make contributions in respect of State debt charges but in 1967-68 these only amounted to $15.2m for interest and $21.6m for sinking funds. The net burden of debt charges falling on the State budgets was thus nearly $250m.

The Premiers claimed that at least half of their overall capital and developmental requirements should be available, free of interest, from revenue sources, and two decisions of the June 1970 Premiers' Conference went some way towards meeting their claim. These were as follows:

(1) The States were to receive part of their annual Loan Council programmes in the form of interest free capital grants amounting to $200m in 1970-71 and increasing in future years proportionately with the total Loan Council programmes. The grants were not tied to any specific purpose and were intended as a contribution towards non-revenue producing capital works expenditure; and

(2) The States were to receive debt charges assistance grants in respect of $200m of outstanding State debts in 1970-71, and in respect of an additional $200m each year from 1971-72 to 1974-75, so that by the beginning of the latter year the Commonwealth would have assumed full responsibility for interest (averaging 5.5 per cent) and sinking fund charges on $1,000m out of the total State debt, estimated at $10,676m in June 1969. In the first year these grants amounted to $11.5m, of which Victoria's share was $2.8m, and they increased by a similar amount in each of the following four years.

Over the five years commencing 1970-71, the new debt charges assistance grants were an addition to the range of specific purpose grants, which had also been greatly expanded for education purposes during the 1960s. The recurrent and capital grants for universities had grown substantially, and had been supplemented by similar grants for colleges of advanced education, recurrent grants for non-government schools, and capital grants for teachers colleges, technical training, school (including non-government school) laboratories, and libraries. In 1970-71 Victoria received $61m in education grants, more than for any other specific purpose. Road grants which had previously been the largest such grant amounted to $49m. Under a new five year agreement introduced in 1969, the Commonwealth Aid Road grants were progressively increased and Victoria's share was marginally enlarged, but the road works to which the grants could be applied were more precisely categorised and the States were required to increase their own expenditure on roads at the same rate as their motor registrations rose. Specific purpose payments, despite these increases to their size and range, still accounted for only about one-quarter of all Commonwealth payments to the States in 1970-71, the remaining three-quarters being general purpose payments which the States could spend in accordance with their own priorities.

1972 TO 1982

The predicted mining boom of 1970 was not as strong as anticipated and the subsequent collapse was not as serious. The number of unemployed peaked at 121,000 in August 1972 and then dropped to 81,500 by August 1973. The annual rate of increase in consumer prices which had been over 6 per cent in 1971-72, rose more slowly for a time. A decision in the 1972 National Wage Case was deferred until early in the following year, and the annual rise in wages and salaries appeared to be slackening. The balance of payments was also highly favourable with a buoyant demand for exports and a strong capital inflow, resulting in high liquidity and a relaxation of upward pressure on interest rates.

Unfortunately subsequent experience was not in line with these expectations. Prices and wages rose more rapidly after 1972 than had previously been experienced. The Consumer Price Index rose by 13 per cent in 1973-74 and yearly increases remained high until 1976-77 and then fell to 10.47 per cent in 1981-82. Average weekly earnings increased by 25 per cent in 1974-75. Towards the end of that financial year the Arbitration Commission introduced the practice of basing its decisions in national wage cases on a system of quarterly indexation for increases in the Consumer Price Index. This system became known as wage indexation and continued until 1981 but quarterly indexation was replaced by half yearly indexation in August 1978, and full indexation also tended to be replaced by partial indexation. On the other hand, indexation increases were often supplemented by "work value" awards, and "real wages" were thus substantially maintained particularly for the lower paid categories of workers, such as juveniles and the unskilled.

At a time when the annual rate of increase of the Consumer Price Index was high, the number of persons unemployed also increased more than threefold between 1974 and 1978.

Over the same years there was also a downturn in the rate of growth of population and the labour force, occasioned largely by a substantial fall in immigration, and the net effect was that the rate of unemployment rose from 2.1 per cent to 6.2 per cent of the labour force.

The coincidence of relatively high rates of inflation and of unemployment was a new phenomenon, and it posed the policy dilemma that measures to reduce unemployment by increased government spending and budgetary deficits was seen by some to create more inflation, as in 1974; while measures to counter inflation by restricting the money supply and public spending could create more unemployment, as in 1977. This dilemma was by no means unique to Australia and to a greater or lesser extent confronted almost all western countries. In consequence international currency upheavals became frequent as countries sought to protect themselves from inflation by appreciating their currencies, as Australia did in December 1972 and September 1973; or from increased unemployment by depreciating their currencies, as Australia again did in September 1974 and November 1976.

Following the appreciation of December 1972 the current balance of payments became adverse after being highly favourable, and private capital inflow declined, necessitating increased overseas borrowing by the Commonwealth. The situation was made worse by relatively unfavourable seasons and depressed overseas markets. As an alternative to further appreciation, a 25 per cent across-the-board tariff cut was made in July 1973 in order to restrain inflation by stimulating imports, without at the same time further depressing export values.

International currency instability also made it impracticable to continue the practice of fixing the Australian exchange rate in terms of any single currency, as had been the practice with respect to the pound sterling before 1971, or the US dollar between 1971 and 1974. Commencing in the latter year the average exchange value of the Australian dollar was fixed in terms of the currencies of Australia's major trading partners, and in 1976 an administrative committee was empowered to vary this trade weighted value at gradual and frequent intervals, thereby ensuring that exchange rate adjustments were primarily the result of policy requirements rather than of speculative pressures.

In 1980-81 the value of the Australian dollar appreciated in this way by about 7 per cent. There was a considerable expansion in private investment and non-residential construction, financed mainly by capital inflow. The appreciation of the dollar assisted in protecting the Australian economy from the effects of continued recession overseas. The annual rate of increase of the Consumer Price Index fell marginally to less than 10 per cent and unemployment also fell to less than 6 per cent of the labour force. These improvements were shortlived and in 1981-82 the dollar was depreciated, domestic liquidity tightened, and interest rates rose. The increase in the Consumer Price Index was over 10 per cent and unemployment came back over 6 per cent.

State expenditure

The national and international developments outlined above had important budgetary consequences for the States, adding to their expenditures without correspondingly increasing their revenues. The current account expenditure of the Victorian Government rose nearly fivefold from $1,134m in 1972-73 to $5,053m in 1981-82, the highest annual rates of increase being 20 per cent or more in the three years 1973-74 to 1975-76 and again in 1981-82. These were also the years in which wages and salaries increased most rapidly, the increases being relatively high for certain classes of State employees such as teachers, hospital workers, and railway employees. Since wages and salaries accounted for 60 per cent of current expenditure this factor obviously had a major impact on the State budget. Other inflationary increases occurred. The government increased Public Service pensions in line with the Consumer Price Index; while in interest rates, the outlay in 1981-82 was 2.5 times as high as in 1972-73, although the State debt increased by only about 50 per cent between the same dates.

Mounting concern about inflation led the Victorian Government to propose a special Premiers' Conference in 1973 to consider co-ordinated Commonwealth-State action on inflation, but nothing came of the subsequent discussions. Early in 1978 Victoria again proposed a short-term wages and prices freeze, but this also proved impracticable despite the support of other State Governments.

In order to restrain the rise in Victorian Government expenditure, strict administrative economies were introduced including staff ceilings on the Public Service establishment, and after 1977 the number of departmental staff actually declined, although some categories of specialised personnel such as teachers and police continued to increase. The Victorian Government expanded its activities in an attempt to reduce unemployment in the areas of agriculture (affected by poor seasons and export difficulties), in manufacturing (affected by import competition), and in the declining construction industry. Programmes were introduced for the encouragement of small businesses, for the training of apprentices, for agricultural reconstruction and adjustment, for forestry activities, and for the development of decentralised industries and other activities such as tourism in country towns.

State services were increased to keep pace with the normal growth of demand. The number of pupils requiring places at State schools, for example, rose from 611,000 in 1973 to 637,000 in 1977, despite the slow-down in population growth and migration. In addition the State Government was committed to improving the quality of services, and for this reason the number of teachers was increased more than proportionately to the number of pupils, so that the pupil-teacher ratio (as recorded in the Budget speeches) fell from 15:1 in 1973 to 13.5:1 in 1978. Even after that date when the number of pupils began to fall, the number of teachers was maintained in order to reduce further the pupil-teacher ratio in primary schools. Similarly, the ratio of population to police was reduced from 732:1 in 1969 to 492:1 in 1981. During these years also there was an extension of government services into fields such as special education for the handicapped, protection of the environment, consumer affairs, the arts, and recreational activities. In 1974 the Premier announced that six new ministries had been created and five reconstructed to operate in such fields. Some of these additional activities were, at least initially, financed partly by Commonwealth specific purpose payments, but mostly they resulted from State initiatives and were dependent on State revenue sources.

State taxation

The revenue potential of State taxes and charges was necessarily limited and even when increased tax rates were feasible they could have undesirable side-effects, including the stimulation of further inflation and the creation of more unemployment. For these reasons there were no tax increases in Victoria in three years 1972-73, 1976-77, and 1978-79. Moreover, as a result of past political and legal commitments, not all State taxes were available to support general expenditure. Thus most motor taxation, other than the surcharge on Third Party Insurance and a proportion of Drivers' Licence fees, did not pass through the Consolidated Fund but was paid directly into various funds for expenditure on roads. Again, much of the revenue from gambling taxation was assigned to health or sporting activities. In 1980-81 the Hospitals and Charities Fund received, albeit through the Consolidated Fund, nearly $100m derived from Tattersall's Lotteries and $50m from Totalizator Agency Board deductions. Similarly racing clubs benefited from both the taxation of bookmakers and from TAB deductions, the latter also supporting activities sponsored by the Ministry of Youth, Sport and Recreation after its establishment in 1972.

Akin to these taxes for specific purposes were those charges for public services the revenue from which was insufficient to provide any surplus for general expenditure purposes. The most important example was railway fares and freight rates. To have increased such charges in line with wage rises would have further discouraged patronage. For these reasons there were no general increases in fares and freight rates between 1971 and 1975 but there were some concessions, and although railway operating revenue rose from $112m in 1971-72 to $129m in 1974-75, it fell as a proportion of operating costs from 81 per cent to 53 per cent between the same dates. In subsequent years there were several general increases in fares and freight rates, and operating revenue reached $264m in 1981-82 but it still only covered 53 per cent of operating costs, leaving a deficit of over $231m exclusive of any railway debt charges.

Of the State taxes available to support general expenditure, some (notably probate, gift duties, and land tax) being assessed on capital values rather than annual values, bore particularly heavily on agricultural industry, family businesses, and home ownership. There was therefore strong pressure in favour of reducing rather than increasing such taxes, and as the result of a series of concessions over the years the revenue from probate and gift duties actually fell from 1977-78 onwards. In line with other States the Victorian Government committed itself to their eventual abolition. From 1969-70 land used for agricultural production had been exempted from land tax and the exemption level for residential blocks was raised in 1973-74 and in the years after 1977-78 when the Victorian Government announced its intention of eventually abolishing land tax on the principal place of residence. The tax was thus limited primarily to industrial and commercial property, and although its yield rose considerably, complicated administrative arrangements were necessary to smooth out the large and irregular increases in liability consequent upon the system of four-yearly revaluations.

Prior to 1971 the major State taxes for general expenditure purposes were stamp duties. In that year stamp duties were abolished on receipts but they continued to be levied on other legal documents, usually at a percentage rate on the transactions involved. There were general increases in the rates of duty in 1971-72 and again in 1973-74 and thereafter revenue grew automatically with the value of the transactions without any increase in rates, except for that on cheques where the duty took the form of a fixed fee. In the 1981-82 budget the duty of 12 cents per cheque was reduced to 10 cents but a new duty was introduced on credit card transactions. Although stamp duty revenue reached $454m by 1981-82 the incidence of the tax was necessarily confined to those business, property, or insurance transactions which required legal documentation. To extend the range of the duties to other transactions was obviously impracticable, and to raise further the percentage rates of duty discriminated against a particular class of transaction. There were thus definite limits to the extent to which stamp duty revenue could be further expanded.

After 1971 the largest source of State tax revenue was payroll tax, the rate of which had been increased from 2.5 per cent to 3.5 per cent when the tax was taken over by the States. By joint agreement among the States the rate was increased again in 1973-74 and 1974-75 when it reached 5 per cent, or twice its level four years earlier. In subsequent years there were no further increases in the tax rate because of the probable adverse effects on employment, and in order to reduce the impact of the tax on small businesses the exemption level was raised annually. Nevertheless, revenue from the tax continued to increase as wages and salaries increased, and reached over $624m in 1980-81 or nearly twice its yield in 1974-75. In the following year a temporary surcharge of 1 per cent was imposed on large payrolls and the yield rose to nearly $800m.

The only new State taxes to be introduced during these years were business franchise taxes for the sale of tobacco and petroleum products. However the use of these taxes was limited because of their complexity and direct effect on prices. Since the early years of federation, Victoria had levied licence fees for the sale of liquor and a challenge to their validity on the ground that they constituted an excise duty was dismissed by the High Court in the *Dennis Hotels* case (1959). Liquor licence fees were raised from 6 per cent to 8 per cent of turnover in 1974-75, and to 9 per cent in 1980-81. Following the lead of some other States, Victoria introduced a business franchise tax on the sale of tobacco in January 1975. Wholesalers paid a fixed licence fee of $10 per month and retailers $10 per annum. There was also a variable levy, paid usually by the wholesaler, amounting originally to 5 per cent of sales but increased to 10 per cent in January 1976 and to 12 per cent in December 1979. In July 1979 a similar business franchise tax was introduced on the sale of petrol and diesel fuel for road transport. Wholesalers paid a fixed licence fee of $50 per month and retailers $50 per annum. There was also a variable levy, paid usually by the wholesaler, amounting to 4.5 per cent of the value of motor spirit and 7.1 per cent of the value of diesel fuel. The revenue from the new tax in 1979-80 was $48m, as compared with $41m from liquor licence fees and $35m from tobacco licence fees. In the 1981-82 budget the petroleum licence fees were increased and in that year revenue from the tax rose to $88m. However, part of the revenue from the tax was needed to replace the road maintenance tax, levied originally in 1956 but abolished in agreement with the other States after the "truckies' strike" of April 1979. Part of the tax revenue was also used to meet the cost of pensioner and other concessions in motor registration fees. Subsidy payments to private bus operators which had previously been charged to the Consolidated Fund were also met by the new tax, but this was the only direct relief to general expenditure resulting from the tax.

Two other sources of State revenue with some of the characteristics of taxation assumed importance during the 1970s. One was statutory corporation payments and the other was mining royalties. From 1966-67 statutory corporation payments had been levied on the State Electricity Commission and the Gas and Fuel Corporation at the rate of 3 per cent of the agreed gross revenue of the preceding year. In 1971-72 the rate was raised to 4 per cent, and in 1979-80 to 5.5 per cent, when the receipts amounted to $34.5m from the State Electricity Commission and $10.7m from the Gas and Fuel Corporation. The rate for the latter body was increased to 8 per cent in 1980-81 and to 15 per cent in 1981-82. Closely analogous to these payments was the requirement that, commencing in 1974-75, half the net profit of the State Savings Bank should be paid into the Consolidated Fund. This payment amounted to $23m in 1981-82.

Mining royalties became significant after 1968-69, with the commencement of oil production from the Bass Strait fields. Under the offshore mining arrangements Victoria collected the royalties and passed on about one-third to the Commonwealth. In 1981-82 collections from this source amounted to $160m, of which the Commonwealth's share was $58m. In an effort to increase the royalty revenue, the State proposed an increase in the rate and/or base of the royalty, but when this proposal was not accepted by the Commonwealth, a new licence fee on Victorian oil pipelines was imposed in the 1981 budget. The revenue from the licence fee was $30m in the first year, but its constitutional validity was challenged successfully by the Commonwealth.

Commonwealth grants

Following the transfer of payroll tax in 1971 there was a significant change in the relative importance, as sources of State revenue, of State taxation on the one hand and of financial assistance from the Commonwealth on the other. Previously the financial assistance grants had been the more important, accounting for some 40 per cent of the State's current revenue. After the transfer, the situation was reversed and State taxation became the more important. In the aggregate, however, current revenue continued to fall short of current expenditure. The Victorian budget showed deficits on current account of $15.8m in 1972-73 (despite a permanent addition of $27.7m to the State's financial assistance grant base and an increase from $2 to $3.5 per capita in the additional grant for Victoria and New South Wales); of $2.6m in 1973-74 (after the addition of $6m as special revenue assistance); and of $15.1m in 1974-75, (after the receipt of $13.9m as Victoria's share of special assistance to assist employment). Current account deficits again occurred in 1978-79 and 1980-81.

When the financial assistance grant formula came up for review in 1975, the State Premiers again submitted a unanimous joint statement. After observing that the 1970 formula had proved so inadequate as to require amendment or supplementation every year since its inception, they proposed that there should be a permanent addition of $350m to the total base grants for the States, and that the wages factor in the escalation formula should be replaced by a "progressive factor" equal to 1.5 times the increase in average wages, thereby enabling the States to share in the benefits which the Commonwealth derived from the progressive income tax, as higher wages lifted taxpayers into higher tax brackets. The Commonwealth did not accede to these proposals, but it agreed to raise the base grants by $220m (of which Victoria's share was $50.6m) and to increase the "betterment factor" in the escalation formula from 1.8 to 3 per cent. The effect was apparent in 1975-76 when Victoria repaid the $10m advance made by the Commonwealth in 1969-70, and still showed a budget surplus of $14.6m on current account.

By 1975-76 the financial assistance grants were about 80 per cent higher than in 1972-73, but this increase was relatively small as compared with that in the Commonwealth's recurrent grants for specific purposes, which rose six-fold between the same dates. The full extent of this increase was not apparent from the receipts and payments of the Victorian Consolidated Fund, which accounted for only about one-eighth of the recurrent payments for specific purposes received by the State. The remainder were paid into trust funds, against which expenditure was charged directly, or through State departments and agencies such as the Hospitals and Charities Fund, the Country Roads Board, and the Housing Commission.

At the June 1973 Premiers' Conference the Prime Minister said that "from now on we will expect to be involved in the planning of the function in which we are financially involved". In line with this centralising policy a series of committees or commissions, analogous to the Universities Commission, were appointed to recommend expenditure targets in fields such as schools, technical training, pre-school education, and hospitals and health services. From 1 January 1974 the Commonwealth assumed full financial responsibility for tertiary education, abolishing student fees and relieving the States of the need to match Commonwealth payments. In this, and some other fields, the increased specific purpose payments were "offset" by corresponding reductions in the financial assistance grants. In their 1975 joint submission, the State Premiers objected that such "offsets" should not be equal to the full savings to the States, because their matching expenditure had not been "financed in full", nor financed to the same extent in all States, by the financial assistance grants, but this argument was not accepted by the Commonwealth.

In August 1975 Victoria entered the "Medibank" scheme for the provision of free standard ward and out-patient services at public hospitals, the Commonwealth contributing 50 per cent of the net recurrent costs of "recognised" hospitals. In October 1976 ministerial approval of budgets was required and other changes were introduced, but the arrangements continued to be matters of controversy. The former grants for tuberculosis control were absorbed into the Medibank scheme, Consolidated Fund expenditure for this purpose being met by recoups from the Medibank trust fund.

Specific purpose grants also proliferated in the social welfare field and in 1974 a programme was introduced for the "on-passing" to local authorities of grants to reduce financial inequalities among them, as recommended by a specially constituted division of the Commonwealth Grants Commission.

In addition to this expansion in recurrent grants there were also somewhat smaller but still substantial increases in capital grants and advances for specific purposes. In 1973-74 the former capital grants for mental hospitals were terminated and a new community health programme commenced. In 1974 a revised system of road grants was introduced, with increased emphasis on inter-city highways. Specific purpose advances for welfare housing were introduced in 1973, appropriate "offsets" being made to State Loan Council allocations, from which housing had previously been financed. A large urban and regional programme of capital works was also embarked upon, advances being made for growth centres such as Albury-Wodonga, arrears in urban sewerage works, and land acquisition by newly established land commissions in the States.

Commonwealth-State relations

In 1975 the Commonwealth proposed to substitute a system of income tax sharing in place of the financial assistance grants, thereby providing the States with more adequate general purpose funds and dispensing with some of the specific purpose payments.

At a series of conferences in 1976, the Commonwealth and the States agreed on thirty-five "points of understanding". The tax sharing arrangement was to apply only to personal income tax, not company tax, and was to be introduced in two stages.

In Stage 1, commencing in 1976-77, the annual total entitlement of the States would amount to the same proportion of annual personal tax collections as the financial assistance grants in 1975-76, estimated at 33.6 per cent. The total entitlement would then be allocated among the States on the same per capita basis as the financial assistance grants had been allocated in 1975-76, subject to a "review of relativities" by an independent body before the end of 1980-81. A long-term guarantee provided that the State entitlements in any year would not be less than in the previous year, and a four year guarantee provided that until 1979-80 the State entitlements in any year would not be less under the new arrangement than they would have been under the 1975 formula for financial assistance grants.

In Stage 2 of the tax sharing scheme a State was enabled to legislate to impose an income tax surcharge on its residents or to grant them a rebate, its entitlement being increased or reduced accordingly. The Commonwealth would remain the sole collecting and administrative agency and would determine the basic income tax structure, State surcharges or rebates being expressed in percentage terms. It was also agreed that equalisation arrangements would be made so that the less populous States received the same relative advantage from any surcharge as Victoria or New South Wales. A Commonwealth suggestion that the States should collaborate with it in preparing complementary and interlocking legislation was not generally acceptable, but discussions were held between the Commonwealth, Victoria, and Western Australia regarding Commonwealth enabling legislation, which was finally passed in June 1978.

The implementation of the tax sharing arrangements encountered a number of problems. In the first place there was the administrative difficulty that annual entitlements had to be determined before final figures of current tax collections were available. Thus in 1976-77 Victoria received $841.7m on the basis of estimated collections whereas it would have been entitled to only $833.7m on the basis of actual collections. A substantial refund might thus have been necessary, but here a further difficulty emerged. The expectation that tax sharing would give the States access to "a growth tax" was substantially disappointed, largely because of the adoption of tax indexation in 1976. Victoria's entitlement on the basis of actual collections was in fact substantially below what the State would have received under the 1975 financial assistance formula. This brought the guarantee into operation. The State's final entitlement was therefore $840.7m, which it would have received under the 1975 formula, and the necessary refund was slightly less than $1m.

Similar situations prevailed in most other States and it was therefore decided to alter the tax sharing formula from 30.6 per cent of current tax collections to 39.87 per cent of the previous year's collections commencing in 1978-79. However, in both 1978-79 and 1979-80 Victoria's entitlement as thus determined was below the guaranteed amounts under the 1975 formula. This guarantee no longer applied in 1980-81, but pending a review of the whole system it was agreed that for one year only the States should be guaranteed the same "real" entitlements as in 1979-80, allowance being made for movements in the Consumer Price Index in each capital city. On this basis Victoria's 1980-81 entitlement was raised from $1,349.6m to $1,354.9m.

The personal income tax sharing system introduced in 1976 came up for its first five year review in 1981, and the Commonwealth decided to extend tax sharing to its *total* tax collection (excluding fees, fines, and other minor items) from 1980 onwards. Interim arrangements were made for the year 1981-82 and the total entitlement of all States for that year was increased by 9 per cent. Victoria obtained an additional $16.5m in 1981-82.

A further problem concerned the relativities according to which the total tax entitlement of the States was allocated among them. The relativities were based initially on the 1975 allocation of financial assistance grants, under which Victoria received a lower per capita payment than any other State. At one extreme the per capita payment to Victoria was only half that to Tasmania, and at the other it was nearly 3 per cent less than the payment to New South Wales. These relativities were to be reviewed by June 1981 but agreement on appropriate guidelines and the constitution of the review body was not reached until October 1977. It was then decided that the review should be undertaken by a special division of the Commonwealth Grants Commission, and the necessary legislation was enacted in June 1978.

The Commission was required to review the 1975-76 relativities in the light of the principle of "equalisation". The Commission inspected services and facilities and held hearings in all States. The Victorian Government claimed in its submissions that the existing relativities made inadequate allowances for the State's disadvantages arising from urbanisation, industrial concentration, large ethnic communities, and the cost of bushfire controls, whereas excessive allowance had been made for the alleged disabilities of the less populous States.

In June 1981 the Commission reported in favour of new relativities which, if implemented in 1981-82, would have improved the relative position of Victoria, New South Wales, and Queensland by a total of about $300m. The resultant financial difficulties of the smaller States would have been such that it was decided to ask the Commission to review its assessments in the light of further submissions from the States and to extend them to take into account 1980-81 data and new health funding arrangements. In the meantime the Commonwealth provided in 1981-82 additional grants of $60m to the larger States, Victoria's share being $15m. The Commission's second report in May 1982 substantially confirmed its earlier findings, but again the necessary readjustments were too great to be implemented immediately. Instead the Commonwealth adopted a set of modified relativities to be phased in with the new *total* tax sharing system over the three years 1982-83 to 1984-85.

As a counterpart to the hoped for (but largely unrealised) increase in general purpose payments that would result from the tax sharing arrangements, a more selective use of specific purpose payments was planned. At the 1976 Premiers' Conference the Commonwealth suggested that some of the specific purpose grants might be cut back if not actually dispensed with, and others "absorbed" in larger general purpose payments. The States agreed that given time for adjustment "absorption" would be acceptable in principle.

A revised system of capital grants for roads was introduced in 1977-78, and subsequent increases in the grants were limited to the amount necessary to maintain the 1977-78 level of "real" expenditure and the quotas to be met by the States were increased. Friction with the States developed over a number of joint programmes (e.g., school dental services) to which the Commonwealth reduced its commitment. Apart from limited term programmes that were not renewed (e.g., capital grants for hospitals that terminated in 1977-78), the biggest reductions were in capital grants and advances for urban and regional projects. After 1976-77 grants and advances for sewerage works were discontinued and those for growth centres and land acquisitions were cut by half, subsequent payments largely taking the form of capitalised interest.

In 1981-82 a number of former specific purpose grants were absorbed into the general purpose tax sharing grant, the largest item being about $50m in respect of urban public transport. In the same year as an interim step towards absorption, a number of health grants were grouped together into what was described as a general purpose payment identifiable as a contribution towards State health programmes. The grants that were replaced in this way were those formerly paid as a half-share in the running costs of public hospitals (except in South Australia and Tasmania, but including the Northern Territory), community health and school dental services. The hospital cost-sharing component was much the largest, but it was reduced below its former level by the States' estimated capacity to raise additional revenue by increasing their hospital charges.

In its 1982 report the Commonwealth Grants Commission assessed the per capita relativities that should be used in the allocation of the health grants.

In 1981-82 the new health payment to Victoria was $326m which was paid through the Consolidated Fund instead of directly into trust funds like the previous grants.

Unlike the hospital grants, specific purpose grants for on-passing to local authorities were continued, albeit in a different form. Local authority grants were related to personal income tax collections, like recurrent grants to the States, being fixed at 1.52 per cent of the previous year's collections in 1976-77 and the two subsequent years, 1.75 per cent in 1979-80, and 2 per cent in 1980-81. The total amount so derived was then divided amongst the States in proportions subject to recommendation by the Commonwealth Grants Commission, but the allocation within each State was made by newly established State Grants Commissions. Instead of the allocations being made solely on a fiscal equalisation basis, at least 30 per cent of the funds had to be allocated on the basis of population and area, so that every municipality received a minimum as-of-right entitlement. Victoria's share of the total funds was 25.45 per cent, amounting to $56.44m in 1979-80, which was allocated among the State's 211 local authorities on the recommendation of the Victorian Grants Commission established in 1977.

One of the specific purpose grants that ceased in 1975 was the debt charges assistance on $200m of State debt that began in 1970 and was extended to an additional $200m of debt in each subsequent year, reaching in 1975 the target of $1,000m, of which Victoria's share was 24.19 per cent. This amount of State debt was then taken over by the Commonwealth after amendment of the 1927 Financial Agreement by retrospective legislation in the Commonwealth and each State Parliament. The proportion of the States' Loan Council works programme met by interest free capital grants from the Commonwealth also rose from one-quarter in 1970 to one-third in 1975 and subsequent years. In 1981-82 Victoria's Loan Council programme amounted to $328.4m of which $109.5m was met by capital grants leaving $218.9m to be met by loan raisings. Since both the capital grants and the loan raisings were for general purposes, the State paid them into the works and services sector of its Consolidated Fund, instead of into trust accounts like specific purpose capital grants (e.g., roads) or specific purpose advances (e.g., welfare housing).

With the growth of general purpose capital grants and specific purpose capital grants and advances, State loan raisings for general purposes became relatively stable but semi-governmental and local borrowings increased rapidly. The borrowing programmes of the larger authorities, which required Loan Council approval, doubled between 1974-75 and 1978-79. Thereafter they remained relatively stable, but the Loan Council also approved a new additional category of infrastructure borrowing by semi-government authorities to assist national development. By the 1980s borrowing for 29 such projects had been approved, including in Victoria the Loy Yang power station, the World Trade Centre, the Wurdee-Boluc pipeline to increase the Geelong water supply, and the Portland transmission line to service the Alcoa aluminium plant.

In June 1982, domestic borrowing by major electricity authorities, which accounted for about half the total (including infrastructure) borrowing by larger semi-governmental authorities, was freed from Loan Council controls. Overseas borrowing by electricity authorities and all borrowing by large non-electricity authorities still remained subject to the Loan Council, as did that by the Commonwealth to finance State works. The sales of Commonwealth bonds had been unduly depressed, however, because of relatively low interest rates and other Loan Council conditions. From June 1982 therefore they were offered on a tender basis, like Treasury notes, thereby facilitating the market adjustment of long-term bond rates in the same way as short-term bill rates.

COMMONWEALTH PAYMENTS *(a)* TO OR FOR VICTORIA: 1934-35 TO 1979-80
($'000)

Particulars	1934-35	1939-40	1944-45	1949-50	1954-55	1959-60	1964-65	1969-70	1974-75	1979-80
General Revenue —										
Tax sharing grants	..	..	..	..	..	..	..	..	..	1,233,934
Other	1,100	55	13,646	28,813	74,713	121,250	171,750	293,643	562,266	..
Payments made under Financial Agreement	4,802	4,855	4,887	5,051	6,015	6,987	8,192	9,854	11,779	13,903
Specific purpose payments —										
Roads	887	1,559	770	3,225	7,543	17,320	25,576	38,160	75,951	113,683
Hospitals	..	..	..	2,994	5,095	3,281	3,720	4,450	7,442	268,476
Education	..	..	..	..	735	2,844	16,012	43,513	394,519	620,089
Other *(b)*	2,478	400	12,453	12,799	15,458	7,566	588	4,560	386,156	305,044
Total	9,267	6,869	31,757	52,882	109,558	159,249	225,838	394,180	1,438,113	2,555,129

(a) Excludes payments for assistance to deserted wives and Loan Council borrowings. Some payments are taken direct to the Consolidated Fund, either to the Current Account sector (e.g., Personal Income Tax Sharing) or to the Works and Services sector (e.g., Works Grant). Other payments may be also taken to the appropriate sectors of the Consolidated Fund (e.g., Schools Grants) and then an equivalent amount is appropriated to the relevant spending programmes through an Appropriation Act or the Works and Services Acts. The remaining payments are taken direct to Trust Accounts set up for each individual purpose. Furthermore, "payments made under Financial Agreement" include Sinking Fund contributions.

(b) Includes payments for welfare, transport, local government tax sharing assistance, etc.

Source: Victorian budget papers.

CONSOLIDATED FUND *(a)*, RECEIPTS: VICTORIA, 1934-35 TO 1979-80
($'000)

Particulars	1934-35	1939-40	1944-45	1949-50	1954-55	1959-60	1964-65	1969-70	1974-75	1979-80
CURRENT ACCOUNT SECTOR										
Taxation —										
Income tax	5,207	9,475	..	..	..	..	..	..	..	..
Unemployment relief tax	3,389	4,000	..	..	..	..	..	..	..	..
Payroll tax	..	..	..	..	..	..	..	..	327,200	562,518
Probate duty	2,250	2,914	3,708	5,222	12,610	18,826	31,614	44,423	58,045	51,389
Land tax	989	980	715	585	5,250	11,708	19,725	22,436	52,968	90,226
Entertainment tax	534	666	..	..	2,353	2,824	516	569	..	..
Motor car third party insurance surcharge	..	..	..	..	..	980	2,177	2,735	5,166	12,531
Totalizator	249	359	788	1,582	1,583	1,769	6,678	14,064	31,841	48,727
Lottery duty	..	..	..	..	5,197	5,932	6,717	6,504	28,808	106,986
Stamp duties	1,922	2,249	2,219	5,952	10,330	27,637	39,978	90,361	172,866	355,968
Licensing fund payment	209	341	585	1,162	3,959	5,600	7,139	10,658	21,028	41,278
Licences	131	186	177	..	..	..	548	1,424	5,540	92,804
Other	191	300	490	505	679	783	409	742	5,257	4,439
Total taxation —										
$'000	15,071	21,470	8,682	15,008	41,961	76,059	115,501	193,916	708,719	1,366,866
(per cent)	(29.77)	(38.20)	(12.31)	(13.51)	(17.96)	(22.59)	(24.03)	(26.68)	(40.45)	(38.02)
Recovery of debt charges	6,580	5,351	4,955	5,898	12,840	21,242	32,576	47,107	76,826	136,733
Fees and charges	1,501	1,590	2,194	4,955	9,317	13,637	19,269	28,957	73,029	131,240
Land revenue	396	485	457	600	871	1,741	2,576	6,075	42,838	141,312
Harbour revenue	364	415	394	735	1,037	1,170	2,368	3,515	5,499	9,828
Railway revenue	19,013	19,712	31,180	40,500	75,390	78,064	102,028	105,205	129,004	228,704
Forests, water supply, and coal mining undertakings	1,726	2,044	3,893	4,791	11,129	13,026	15,868	19,247	34,270	63,812
Fines	39	67	71	145	266	944	2,631	5,169	10,309	23,323
Statutory corporation payments	..	..	..	..	..	..	..	7,425	14,520	45,238
Other	578	817	874	1,754	1,801	2,426	8,863	9,062	22,492	84,495
Total revenue from State sources —										
$'000	45,268	51,951	52,700	74,386	154,612	208,309	301,680	425,678	1,117,506	2,231,551
(per cent)	(89.42)	(92.43)	(74.70)	(66.95)	(66.19)	(61.88)	(62.76)	(58.56)	(63.78)	(62.07)

CONSOLIDATED FUND *(a)*, RECEIPTS: VICTORIA, 1934-35 TO 1979-80—*continued*

($'000)

Particulars	1934-35	1939-40	1944-45	1949-50	1954-55	1959-60	1964-65	1969-70	1974-75	1979-80
Commonwealth payments to the State —										
Financial agreement payments	4,254	4,254	4,254	4,254	4,254	4,254	4,254	4,254	4,254	4,254
Financial assistance grants	..	..	..	28,474	64,794	121,250	171,750	280,008	562,267	..
Personal income tax sharing entitlement	..	..	..	..	..	..	..	..	..	1,233,934
Other	1,100	..	13,591	3,999	9,919	2,808	2,984	16,960	68,168	125,375
Total Commonwealth payments —										
$'000	5,354	4,254	17,846	36,727	78,967	128,312	178,988	301,222	634,689	1,363,563
(per cent)	(10.58)	(7.57)	(25.30)	(33.05)	(33.81)	(38.12)	(37.24)	(41.44)	(36.22)	(37.93)
Total—										
$'000	50,622	56,205	70,546	111,113	233,579	336,621	480,668	726,900	1,752,195	3,595,114
(per cent)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
WORKS AND SERVICES ACCOUNT SECTOR *(b)*										
Proceeds of loan raisings } Loan repayments }	4,485	6,641	12,359	34,976						
Proceeds of loan raisings					75,923	94,326	121,185	157,870	184,809	208,521
Loan repayments					4,343	11,634	7,588	6,616	6,282	15,469
Commonwealth payments —										
Works grants	..	..	..	..	..	..	..	..	87,370	104,260
School building grants	..	..	..	..	..	..	..	..	49,524	50,244
Public transport—railways	..	..	..	..	..	..	..	..	..	11,894
Sewerage advances	..	..	..	..	..	..	..	..	34,236	..
Total	4,485	6,641	12,359	34,976	80,266	105,960	128,773	164,486	362,221	390,388
Total receipts	55,107	62,846	82,905	146,089	313,845	442,581	609,441	891,386	2,114,416	3,985,502

(a) The Consolidated Fund established on 1 July 1970, superseded the Consolidated Revenue Fund and the Loan Fund by incorporating both into this new Fund. For comparative purposes, the table also shows for the years prior to 1974-75, an artificial incorporation of both these funds.
(b) The amounts shown for 1969-70 and earlier represent the receipts of the Loan Fund.
Source: Department of Management and Budget.

CONSOLIDATED FUND *(a)* PAYMENTS: VICTORIA, 1934-35 TO 1979-80

Particulars	1934-35	1939-40	1944-45	1949-50	1954-55	1959-60	1964-65	1969-70	1974-75	1979-80
				$'000						
Public debt charges	15,933	16,919	16,863	18,590	33,564	59,292	89,057	130,511	194,492	314,686
Business undertakings —										
Railways	12,489	15,369	24,853	38,396	71,236	74,196	93,191	111,268	243,779	390,118
Other *(b)*	735	2,157	3,158	4,444	8,266	10,064	11,574	14,112	35,895	66,782
Social expenditure —										
Education *(c)*	5,139	6,398	7,952	17,342	38,846	71,138	125,199	236,619	565,507	1,141,615
Public health and recreaction	77	195	394	1,088	2,400	4,408	6,964	10,484	24,353	47,306
Charitable —										
Hospitals	1,474	2,506	3,625	8,684	29,148	43,130	53,779	86,711	257,055	477,923
Child welfare	4,361	654	431	472	1,066	2,618	4,392	7,643	30,370	94,881
Other		4,184	1,088	1,806	6,052	*(d)*822	966	1,403		
Law, order, and public safety	2,378	2,711	3,579	6,820	12,754	20,750	27,885	41,445	116,348	258,078
Total social expenditure	13,430	16,648	17,070	36,212	90,266	142,866	219,184	384,306	993,633	2,019,803
All other expenditure	8,336	5,099	7,903	13,990	27,574	*(d)*49,576	67,661	102,086	299,530	742,307
Total	50,924	56,193	69,848	*(e)*111,632	*(e)*230,906	335,994	480,668	742,282	1,767,329	3,533,674
Appropriation to Works and Services Account *(f)*	4,485	6,641	12,359	34,976	80,266	105,960	128,773	164,486	347,087	419,432
Total payments	55,409	62,834	82,207	*(e)*146,608	*(e)*311,172	441,954	609,441	906,768	2,114,416	3,953,106

CONSOLIDATED FUND *(a)* PAYMENTS: VICTORIA, 1934-35 TO 1979-80—*continued*

Particulars	1934-35	1939-40	1944-45	1949-50	1954-55	1959-60	1964-65	1969-70	1974-75	1979-80
				PER CENT						
Public debt charges	28.76	26.93	20.51	12.68	10.79	13.41	14.61	14.39	9.20	7.96
Business undertakings —										
Railways	22.54	24.46	30.23	26.19	22.89	16.79	15.29	12.27	11.53	9.87
Other *(b)*	1.33	3.43	3.84	3.03	2.66	2.28	1.90	1.56	1.70	1.69
Social expenditure —										
Education *(c)*	9.28	10.18	9.68	11.83	12.48	16.09	20.55	26.09	26.74	28.87
Public health and recreation	0.14	0.31	0.48	0.74	0.77	1.00	1.14	1.16	1.15	1.20
Charitable —										
Hospitals	2.66	3.99	4.41	5.93	9.37	9.76	8.83	9.56	12.16	12.09
Child welfare	7.87	1.04	0.52	0.32	0.34	0.59	0.71	0.84	1.44	2.40
Other		6.66	1.32	1.23	1.95	0.19	0.16	0.16		
Law, order, and public safety	4.29	4.32	4.36	4.65	4.10	4.69	4.58	4.57	5.50	6.53
Total social expenditure	24.24	26.50	20.77	24.70	29.01	32.32	35.97	42.38	46.99	51.09
All other expenditure	15.04	8.11	9.62	9.54	8.86	*(d)*11.22	11.10	11.26	14.16	18.78
Total	91.91	89.43	84.97	*(e)*76.14	*(e)*74.21	76.02	78.87	81.86	83.58	89.39
Appropriations to Works and Services Account *(f)*	8.09	10.57	15.03	23.86	25.79	23.98	21.13	18.14	16.42	10.61
Total payments	100.00	100.00	100.00	*(e)*100.00	*(e)*100.00	100.00	100.00	100.00	100.00	100.00

(a) Prior to 1970-71, Victoria's financial transactions were carried out through the Consolidated Revenue Fund, the Loan Fund, and the Trust Fund. From 1 July 1970, legislation abolished the Consolidated Revenue Fund and the Loan Fund and in lieu established the Consolidated Fund, which was designed to show, in a single statement, the receipts and disbursements of all money, both revenue and loan, coming within the scope of the Budget. (See *Victorian Year Book* 1976, pages 514 and 530.) The legislation also created a new trust fund, the Works and Services Account, to be financed by appropriations from the Consolidated Fund. For comparative purposes appropriation to the Works and Services Account for 1969-70 and earlier years represent the receipts of the Loan Fund.

(b) Includes tramways and omnibuses, harbours and rivers, etc., water supply and sewerage, electricity supply, etc.

(c) Includes technical schools, science, art and research institutions, libraries and art galleries, etc.

(d) A change occurred in the treatment of interest and repayments of advances under the Commonwealth-State Housing Agreement for 1959-60 onwards.

(e) Excludes interest subsidy paid by Treasury to Victorian Railways of $3,376,000 in 1949-50 and $4,296,000 in 1954-55.

(f) The amounts shown for 1969-70 and earlier years represent the receipts of the Loan Fund.

Source: Department of Management and Budget.