Australian State and Local Government Spending & Taxing Over the Last 25 Years

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AUSTRALIAN STATE AND LOCAL GOVERNMENT SPENDING & TAXING OVER THE LAST 25 YEARS.

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Abstract.

This is a descriptive paper that analyses the changes in Australia's State and Local government budgetary positions over the past 25 years. Although the Australian Constitution specifies the responsibilities of each level of government, in a practical sense accountability is less clearly defined. The data presented in this paper shows the changes in Commonwealth government payments to the State and Local sector, as well as the variations in government spending, taxing, financing and costs.

I INTRODUCTION

The multi-tiered system of Australian government should enable a more decentralised form of democracy to operate. However, the extent to which State and Local governments rely on income from the Commonwealth has limited the degree to which the the States are able to pursue independent policies. The State and Local sector's reliance on Commonwealth income results from what is known as vertical fiscal imbalance. Vertical fiscal imbalance is due to the Commonwealth raising more tax income than it spends, while the State and Local governments spend more than they collect. This paper looks at the relationships between the different levels of government by presenting data on State and Local, and Commonwealth expenditure as well as government income, financing and costs.

All data is in real per capita terms as this allows meaningful comparisons between the States through time. Unpublished Australian Bureau of Statistics (ABS) expenditure data is used to extend the data set back to 1969-70. Government spending is broken into that for education (ED), health (HTH), transport (TRAN) and other (OTH). Commonwealth government Specific Purpose Payments (SPPs) to the States have also been grouped in this manner. Although individual SPPs are available from Commonwealth Budget Papers, grouping them by purpose for the entire sample period enables their influence on the direction of State and Local spending to be assessed. Government cost indexes have been derived and they also assist in the evaluation of the determinants of the level and direction of government spending.

Australian government is also characterised by horizontal fiscal imbalance. This occurs as certain State governments are disadvantaged with respect to their ability to either raise income and/or provide government services. The Commonwealth uses General Purpose Payments (GPPs) to compensate for this form of imbalance, and the level and direction of these payments is also examined.

There are nine sections in this paper, an introduction, a general section on the data and sections on government income, expenditure and financing. Section VII looks specifically at the different areas of government spending and the use of specific purpose payments in each area. Next there is a section on government costs, followed by a conclusion.

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* *I would like to thank my supervisor Professor Ross A. Williams of the University of Melbourne for his assistance in the preparation of this paper.*

II THE DATA.

The paper principally analyses the State and Local government sector, although some Commonwealth data is presented for comparison purposes. It covers the non-financial public sector, comprising units that are owned and/or controlled by government, so both the public trading enterprises and general government are included. As no distinction is drawn between State governments and Local governments the focus is on the entire State and Local sector. There is no analysis of the Northern Territory or the Australian Capital Territory as they have not been running independent fiscal policies for the entire sample period. As the statistics deal with the financial activity of different levels of government consolidation is required to avoid double counting. State and Local government data are consolidated, as are the figures for general government and public trading enterprises.

The sample is from 1969-70 to 1994-95 and the implicit price deflator and State populations are used to convert the data into real per capita terms.[1] The sample means and annual average growth rates of State populations are presented in table 1.

TABLE 1: POPULATION (means & growth).

	NSW	VIC	QLD	WA	SA	TAS	ALL
mean	5,361,040	4,045,610	2,466,900	1,368,230	1,341,160	434,270	15,384,860
growth	1.1 %	1.0 %	2.4 %	2.1 %	0.9 %	0.7 %	1.4 %

NSW (New South Wales), VIC (Victoria), QLD (Queensland), WA (Western Australia), SA (South Australia) TAS (Tasmania) and ALL (All States & Territories).

This table shows the diversity of Australia's States in terms of their relative population sizes and growth rates. The charts on the first page of APPENDIX A show variations in population growth rates for the entire sample period. QLD and WA have grown ahead of the national average, while the other States have grown by less.

The Commonwealth Grants Commission conducts reviews to assess State's relative fiscal capabilities, and has always found that the larger States enjoy a natural advantage over the smaller States. These assessments result from variations in absolute population sizes as well as geographic, demographic and fiscal factors. These things influence State's abilities to collect income and provide government services. The Commonwealth uses the Grants Commission assessments to compensate the States using GPPs.

III GOVERNMENT.

It may be expected that the political persuasion of a State government would influence fiscal behaviour. The changing nature of Australia's governments are presented below.

NSW.

1st June 1969	to 14th May 1976	**Conservative.**
14th May 1976	to 25th March 1988	**Labor.**
25th March 1988	to 25th March 1995	**Conservative.**
25th March 1995	to present	**Labor.**

VIC.

1st June 1969	to 3rd April 1982	**Conservative.**
3rd April 1982	to 3rd October 1992	**Labor.**

[1] *The data used in this paper is from various sources, details of sources and how each data set was constructed are presented in the APPENDIX B.*

3rd October 1992	to present	**Conservative.**

QLD.

1st June 1969	to 2nd December 1989	**Conservative.**
2nd December 1989	3rd February 1995	**Labor.**
3rd February 1995	to present	**Conservative[2].**

WA.

1st June 1969	to 3rd March 1971	**Conservative.**
3rd March 1971	to 6th April 1974	**Labor.**
6th April 1974	to 25th February 1983	**Conservative.**
25th February 1983	to 16th February 1993	**Labor.**
16th February 1993	to present	**Conservative.**

SA.

1st June 1969	to 30th May 1970	**Conservative.**
30th May 1970	to 15th September 1979	**Labor.**
15th September 1979	to 6th November 1982	**Conservative.**
6th November 1982	to 11th December 1993	**Labor.**
11th December 1993	to present	**Conservative.**

TAS.

1st June 1969	to 3rd May 1972	**Conservative.**
3rd May 1972	to 26th May 1982	**Labor.**
26th May 1982	to 29th June 1989	**Conservative.**
29th June 1989	to 17th February 1992	**Labor.**
17th February 1992	to present	**Conservative.**

COM.

1st June 1969	to 5th December 1972	**Conservative.**
5th December 1972	to 11th November 1975	**Labor.**
11th November 1975	to 11th March 1983	**Conservative.**
11th March 1983	to 2nd March 1996	**Labor.**
2nd March 1996	to present	**Conservative.**

IV EXPENDITURE.

Government expenditure has been divided into that for education, health, transport and other. Education includes outlays for primary and secondary education, universities, technical education and pre-schools. Education spending accounted for one quarter of total State and Local expenditure during the sample period. Health covers outlays for hospitals, other institutional services, clinical services, public health, pharmaceutical, medical aids and health research. On average health made up 14 per cent of total State and Local government expenditure since 1969-70. Transport is government expenditure for road, water, rail and air transport; and 14 per cent of total State and Local government expenditure were devoted to this. In other government expenditure, the significant items are debt servicing, public order and safety, housing and community amenities (water, gas and electricity provision). This represented almost half State and Local government expenditure during the data period.

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[2] *The Conservatives actually took power after 3rd of February, when an independent politician agreed to support them.*

Table 2 presents the sample means and average annual growth rates for each expenditure category for the States and the Commonwealth.

TABLE 2: REAL PER CAPITA GOVT EXPENDITURE (means & growth).

		NSW	VIC	QLD	WA	SA	TAS	ALL	COM
ED	mean	$853	$929	$798	$906	$950	$1,008	$875	$373
	growth	3.0 %	2.2 %	3.3 %	2.7 %	3.0 %	2.2 %	2.8 %	6.3 %
HTH	mean	$482	$486	$433	$617	$548	$584	$494	$540
	growth	4.6 %	4.7 %	4.4 %	3.5 %	5.3 %	3.5 %	4.6 %	5.8 %
TRAN	mean	$547	$446	$525	$530	$397	$507	$495	$341
	growth	1.6 %	0.5 %	1.3 %	-1.0 %	-3.9 %	-0.3 %	0.7 %	0.1 %
OTH	mean	$1,682	$1,795	$1,757	$1,926	$1,877	$2,395	$1,779	$3,933
	growth	2.1 %	2.5 %	0.8 %	1.6 %	2.9 %	1.3 %	2.1 %	2.1 %
TOT	mean	$3,564	$3,656	$3,512	$3,979	$3,772	$4,495	$3,642	$5,187
	growth	2.6 %	2.4 %	1.8 %	1.7 %	2.5 %	1.6 %	2.4 %	2.5 %

This table shows that real per capita expenditures are not uniform across Australia. One of the reasons is Australia's federal system of government as this allows State governments to respond to non-uniform voter preferences. There are also differences in the cost of providing government services, and Commonwealth government grants which are also not the same among the States.

Over the last 25 years real per capita State and Local spending in NSW and QLD were below the average even though NSW spends a lot on transport. QLD had the lowest government spending, with expenditure on both health and education being less than average. VIC's high level of spending is mainly due to education as health spending is not particularly high. TAS spends the most on education and WA spends the most on health.

The growth rates in table 2 and the charts on pages 2 to 6 of APPENDIX A provide more information on the variations in government expenditure during the sample period.

The charts and growth rates show an upward trend in both Commonwealth and State and Local government expenditure from the late 1960s to the present. Government outlays increased significantly during the mid 1970s due to the Whitlam Labor Government's increased use of Specific Purpose Payments (SPPs) to instigate various Commonwealth initiatives. This was followed by a period of restraint in the late 1970s and early 1980s associated with the Conservative Fraser Government's programs know as New Federalism. Under this initiative the States were to be given more autonomy by replacing the financial assistance grants component of GPPs with tax sharing grants. These payments were set at a fixed proportion of Commonwealth income tax collections and the effect was less growth in income and expenditure at the State and Local level.[3]

The early part of the 1980s, under the Hawke Labor Government, was characterised by a Keynsian increase in government spending. After the initial growth, outlays at both the Commonwealth and State and Local levels were more restrained. This resulted from concerns about Australia's current account deficit that lead to the Commonwealth introducing policies to reduce government's call on national savings. One of the ways this was done was reduced Commonwealth payments to the State and Local sector. This eventually forced State and Local governments to also restrain their outlays.

Tables 1 and 2 show the two States with the strongest population growth, QLD and WA, had the lowest growth in total expenditure. Government spending in these two States has only just kept ahead of population growth. TAS also had low growth in government spending, while in the other States growth was almost the same as that for total government spending.

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[3] *Although it was never implemented the next stage of New Federalism was to allow the States to have the discretion to vary personal tax levied on their citizens.*

The growth rates also show that real per capita government health expenditure increased ahead of total government spending. This is because the establishment of a national health insurance scheme (first medibank and then medicare) which raised government health spending substantially. Education spending has also increased ahead of total spending. The results from the Commonwealth initiative of fully funding tertiary education since 1974. The growth rates for transport spending are the lowest of all the expenditure categories, while the other expenditure growth rates are close to the growth of total spending.

V INCOME

The Commonwealth uses various forms of assistance to compensate the State and Local sector for vertical fiscal imbalance. These payments (GRANTs) account for approximately 50 per cent of total State and Local income. The balance, State and Local own source income (OWN), are from payroll tax, stamp duty, motor vehicle taxes, municipal rates, the operating surplus' of public trading enterprises and gambling taxes. For our purposes GRANTs are grouped into either GPPs or SPPs to the entire State and Local sector. Over the sample period GPPs made up 56 per cent of Commonwealth payments to State and Local governments, with SPPs accounting for the rest. The SPPs are also broken into those for education, making up 39 per cent of total SPPs; health SPPs were 23 per cent; transport SPPs contributed 14 per cent and other SPPs represented 24 per cent.

Table 3 shows the sample means and average annual percentage growth rates of these income sources.

TABLE 3: REAL PER CAPITA GOVERNMENT INCOME (means & growth).

		NSW	VIC	QLD	WA	SA	TAS	ALL	COM
GPP*	mean	$734	$732	$962	$1,100	$1,109	$1,509	$880	
	growth	-1.1 %	-1.3 %	-0.8 %	-1.8 %	-1.1 %	-2.4	-0.3	
SPP	mean	$675	$685	$689	$808	$797	$898	$705	
	growth	5.0 %	5.2 %	3.6 %	2.5 %	4.0 %	2.5 %	4.4 %	
SPP_{ED}	mean	$271	$308	$256	$286	$287	$270	$277	
	growth	6.6 %	6.2 %	6.5 %	7.4 %	5.5 %	7.1 %	6.5 %	
SPP_{HTH}**	mean	$165	$154	$129	$185	$196	$199	$159	
	growth	13.6 %	15.6 %	16.2 %	15.0 %	14.4 %	15.2 %	15.0 %	
SPP_{TRAN}	mean	$90	$76	$127	$131	$105	$148	$98	
	growth	-0.7 %	-2.5 %	-3.2 %	-3.8 %	-5.3 %	-2.3 %	-2.3 %	
SPP_{OTH}	mean	$148	$147	$177	$205	$209	$281	$171	
	growth	3.5 %	3.7 %	2.0 %	-0.6 %	4.9 %	-0.7 %	2.8 %	
GRANT	mean	$1,409	$1,417	$1,651	$1,907	$1,907	$2,407	$1,585	
	growth	1.4 %	1.3 %	1.0 %	0.0 %	1.0 %	-0.6	1.5 %	
OWN	mean	$1,681	$1,658	$1,522	$1,492	$1,386	$1,580	$1,572	
	growth	5.1 %	5.7 %	6.4 %	9.2 %	7.5 %	10.8 %	5.8 %	
TOTAL	mean	$3,090	$3,074	$3,173	$3,399	$3,293	$3,988	$3,157	$4,729
	growth	3.4 %	3.6 %	3.5 %	3.3 %	3.5 %	2.6 %	3.5 %	2.2 %

** Payments are net of advances.*

*** At various times the Commonwealth has provided health funding as both an SPP and as an identified health component of GPPs, all figures have been adjusted so these funds are always treated as SPPs.*

This table shows the extent of vertical fiscal imbalance as State and Local income is derived evenly from Commonwealth grants and from own sources.

The figures in table 3 show that State real per capita government income are inversely related to State populations and own source incomes are directly related. Own source income in NSW represents 54 per cent of total income, while in Tasmania this figure is only 40 per cent. The shortfall of income in the smaller States is made up by Commonwealth government grants.

The largest Commonwealth grants are GPPs and due to the Grants Commission process VIC and NSW get far less than the national average. GPPs are used to compensate SA and TAS for their relative disabilities in the collection of payroll tax, stamp duty and mining royalties. WA and TAS are in receipt of higher GPPs due to disadvantages associated with diseconomies of scale. WA and QLD also receive recompense because of the dispersed nature of their populations. In addition QLD receives extra remuneration as it gets below the average amount of SPPs.

The growth rates from table 3 and the charts on pages 7 to 15 of APPENDIX A show the fluctuations in the different forms of government income (revenue) over the sample period.

During this time the annual average growth of Commonwealth government income was 2.2 per cent. The growth of Commonwealth grants to the State and Local sector was only 1.5 per cent, while State and Local own source income increased by 5.8 per cent per annum. Therefore, the Commonwealth is now making a smaller effort to redress vertical fiscal imbalance.

Another point is that the ratio of GPPs to SPPs has been moving in favour of SPPs. GPPs have actually contracted in real per capita terms during the data period, while SPPs have increased at an average annual growth rate of 4.4 per cent. Health SPPs have grown dramatically because of medibank and medicare. Education SPPs have become more important due to increased Commonwealth involvement in tertiary education. Transport SPPs are now smaller than they were in 1969-70, while other SPPs have shown moderate growth.

When individual States are examined it can be seen that the growth rates of the grants are not uniform. Grants to the smaller States have not kept pace with the national average and this has resulted in these States being required to make a greater effort with their own source incomes. The reason for the redirection of grants away from the smaller States has been that GPPs have contracted by more in the smaller States and SPPs have grown disproportionately in larger States. As the distribution of GPPs is the means by which horizontal fiscal imbalance is redressed, the changing pattern of their allocation infers that the Grants Commission assessed imbalance is now less.

The reallocation of GPPs is evident from the charts. They show that the gap between GPPs going to SA, WA, and TAS compared to NSW and VIC has become smaller during the sample period. One of the reasons for this is that the populations in the smaller States have moved toward the State capital cities and this reduces the compensation received for dispersion, also there have been changes in the distribution of SPPs. The cause of the substantial cut in the total amount of GPPs in 1989-90 relates to the transfer of taxing powers to the States. The Commonwealth allowed the States to subject Commonwealth government enterprises to payroll tax from 1988-89, and other taxes and charges from 1989-90. The bank account debits tax was also transferred to the States in 1990-91.

The financial difficulties faced some State governments during the late 1980s and early 1990s resulted from; the effects of the recession on State own source income, the continued reductions in grants and the financial problems faced by some State owned financial and commercial enterprises. SA was particularly badly affected by the need to assist the State Bank of South Australia and the State Insurance Office. This caused in a surge in government spending and prompted the Commonwealth to provide some special revenue assistance. VIC and WA also experienced problems with their financial institutions at this time.

In the 1990s the financial positions of most States improve and this occurred due to the winding down of expenditure and more favourable economic conditions which yielded stronger growth in own source income. Victoria has undertaken significant budget reforms, with a public sector redundancy program and reduced spending on public transport, education and health. These measures have been accompanied by income raising initiatives such as the state deficit levy and asset sales. These policies are evident from the charts.

VI FINANCING.

Total expenditures in table 2 less total incomes in table 3 yield the government financing requirements. The sample means and growth rates for each government's total financing requirements are presented in table 4.

TABLE 4: REAL PER CAPITA FINANCING (sample means).

	NSW	VIC	QLD	WA	SA	TAS	ALL	COM
mean	-$474	-$582	-$339	-$580	-$479	-$507	-$486	-$458
growth	-4.3	-8.2	-196.5	-191.1	-10.6	-5.3	-11.3	6.7

These figures are total expenditure less total income for the entire public sector (general government and public trading enterprises). No account has been taken of increases in provisions for either superannuation or depreciation.

In all States average income is less than average expenditure, so financing is required. Although the growth rates have limited meaning, they show that in every State the need for financing has been reduced during the sample period, although this has not been the case for the Commonwealth. The charts on page 16 of APPENDIX A also show the entire State and Local sector is now making a smaller call on the nation's savings than is the Commonwealth. The large amounts of State borrowing in the 1970s and 1980s were mainly due to the high global borrowing limits as this allowed State public trading enterprises to invest in a number of major projects (mainly electricity).

VII EXPENDITURE AREAS.

The extent to which the Commonwealth is able to exert influence over State and Local policies has always been a contentious issue. An indicator of the degree of authority the Commonwealth has may be the proportion of State outlays in each area that are directly funded by SPPs. To analysis this SPP_{ED}, SPP_{HTH}, SPP_{TRAN} and SPP_{OTH} as a proportion of government education, health, transport and other spending in each State has been calculated for the financial years of 1969-70 and 1994-95, and for the sample mean. These figures are presented in table 5.

TABLE 5: SPPs AS A PERCENTAGE OF STATE AND LOCAL OUTLAYS.

		NSW	VIC	QLD	WA	SA	TAS	ALL
ED	69-70	13.3 %	14.6 %	15.3 %	10.1 %	16.3 %	9.2 %	13.7 %
	94-95	31.8 %	38.4 %	32.9 %	31.1 %	29.4 %	29.3 %	32.8 %
	mean	31.8 %	33.1 %	32.1 %	31.5 %	30.2 %	26.8 %	31.7 %
HTH	69-70	4.5 %	3.3 %	3.1 %	3.2 %	5.3 %	3.0 %	3.7 %
	94-95	34.7 %	40.1 %	45.6 %	43.4 %	41.2 %	44.6 %	39.5 %
	mean	34.3 %	31.7 %	29.8 %	30.1 %	35.8 %	34.2 %	32.2 %
TRAN	69-70	23.7 %	21.1 %	32.4 %	29.0 %	37.3 %	36.6 %	27.2 %
	94-95	13.5 %	9.8 %	10.4 %	14.2 %	26.4 %	21.6 %	12.7 %
	mean	16.4 %	17.0 %	24.2 %	24.8 %	26.4 %	29.2 %	19.8 %
OTH	69-70	7.3 %	6.2 %	8.6 %	18.6 %	9.5 %	14.8 %	8.9 %
	94-95	10.2 %	8.3 %	11.6 %	10.9 %	15.3 %	9.1 %	10.5 %
	mean	8.8 %	8.2 %	10.1 %	10.6 %	11.1 %	11.7 %	9.6 %
TOT	69-70	11.0 %	10.3 %	14.0 %	17.4 %	16.5 %	15.4 %	12.6 %
	94-95	19.9 %	20.1 %	21.8 %	21.4 %	23.8 %	19.6 %	20.8 %
	mean	18.9 %	18.7 %	19.6 %	20.3 %	21.1 %	20.0 %	19.4 %

A high ratio in this table implies that SPPs are a significant supplier of funds to this expenditure area and a low ratio means the reverse.

Table 5 shows that SPPs are currently directly funding around one fifth of total State and Local government outlays and this has increased from about 13 per cent in 1969-70. The increased importance of SPPs during the sample period has occurred in all expenditure areas except transport. SPPs provide the most significant amount of funds for education and health, with their contribution being around one third. In transport they currently supplement expenditure by only 13 per cent. In the other expenditure area SPPs provide only about 10 per cent of the funds.

To gain a better appreciation of what has happened during the last 25 years table 5 needs to be viewed in conjunction with the expenditure and SPP charts in APPENDIX A. The charts on page 17 of the APPENDIX draws these things together as it shows SPPs as a percent of expenditure in each area.

EDUCATION.

Currently education SPPs provide the funds for a little over 30 per cent of education spending Australia wide. The exception is Victoria, where a higher ratio may be explained by a larger number of University students and a greater proportion of students in non-government schools.

As both table 5 and the charts show SPPs were a less important contributor to education spending in the early 1970s. This changed in 1974 when the Commonwealth started funding higher education via SPPs. The reductions in education SPPs in the late 1980s reflects the decision to introduce the Higher Education Contribution Scheme (HECS). When students pay HECS the money is put into a Commonwealth government trust and then paid as a Commonwealth own purpose outlays directly to Universities. As this does not involve the States, Education SPPs and State and Local education spending fell.

HEALTH.

In all States except NSW, SPPs currently fund more than 40 per cent of State and Local government outlays. In NSW the State government is financing a higher proportion of health spending through its own resources because of a significant increase in health spending in 1994-95, and this was at a time when health SPPs were being reduced.

Table 5 and the charts that relate to health spending and health SPPs in APPENDIX A show that the States now rely more on SPPs to fund health than was the case in the early 1970s. This change dates from 1973 when the Whitlam Labor Government introduced the Health Insurance Act as part of it's Medibank program. The act authorised the Commonwealth to ensure that States provided free public hospitals with no means test and the Commonwealth used SPPs to meet 50 per cent of the costs. There were new arrangement negotiated in 1976 with the Fraser Conservative Government where the Commonwealth only met the costs of people without private health insurance. In the mid 1980s the Hawke Labour Government's medicare program saw an increase in health spending and SPPs. The arrangement was that State public hospitals would introduce a standard charge and medicare would provide using compensation using SPPs. As QLD decided not to introduce these charges it did not receive as much compensation.

TRANSPORT.

Table 5 and the charts show that transport is different to the other expenditure areas as SPPs are currently less important than was the case in the 1970s. The National Road Grants Bill in 1974 tried to integrate roads and urban public transport and lead to substantial increases SPPs and spending. The Bicentennial Road Program in the mid 1980s caused significant increases in both transport SPPs and State and Local transport outlays. The winding down of this project can be seen in both the transport spending and SPP graphs.

In 1994 a decision was taken that road funding (previously an SPP) would be untied and treated as GPPs. This is evident through a reduction in Transport SPPs and less State and Local government transport spending.

OTHER.

As much of the expenditure in this category is debt servicing the area is less reliant on SPPs. Spending in most States has generally trended upward during the sample period while the SPPs in this category have been more varied. The changes in SPPs have been mostly due to changes in Commonwealth policies regarding funding for housing.

VIII GOVERNMENT COSTS.

Table 5 presents the annual average growth rates for the indexes of public sector costs. For a full description of how these indexes were calculated refer to APPENDIX B.

TABLE 6: ANNUAL AVERAGE COST INDEX GROWTH RATES.

	NSW	VIC	QLD	WA	SA	TAS	ALL
ED	7.7 %	7.8 %	7.8 %	7.9 %	7.8 %	7.6 %	7.8 %
HTH	7.7 %	7.9 %	7.8 %	7.8 %	7.7 %	7.8 %	7.8 %
TRAN	8.3 %	8.3 %	8.3 %	8.4 %	8.3 %	8.3 %	8.3 %
OTH	7.4 %	7.6 %	7.5 %	7.5 %	7.6 %	7.4 %	7.6 %

The growth rates are similar for each expenditure category and across the States, with the exception being transport, where costs have increased ahead of the rest. Government costs seems to have generally moved with inflation. Health and education costs are probably determined largely by labour costs while transport costs may relate to energy prices. A thorough assessment of the effects of these cost changes on government fiscal policies requires a more sophisticated approach than simply observing growth rates and viewing charts.

IX CONCLUSION.

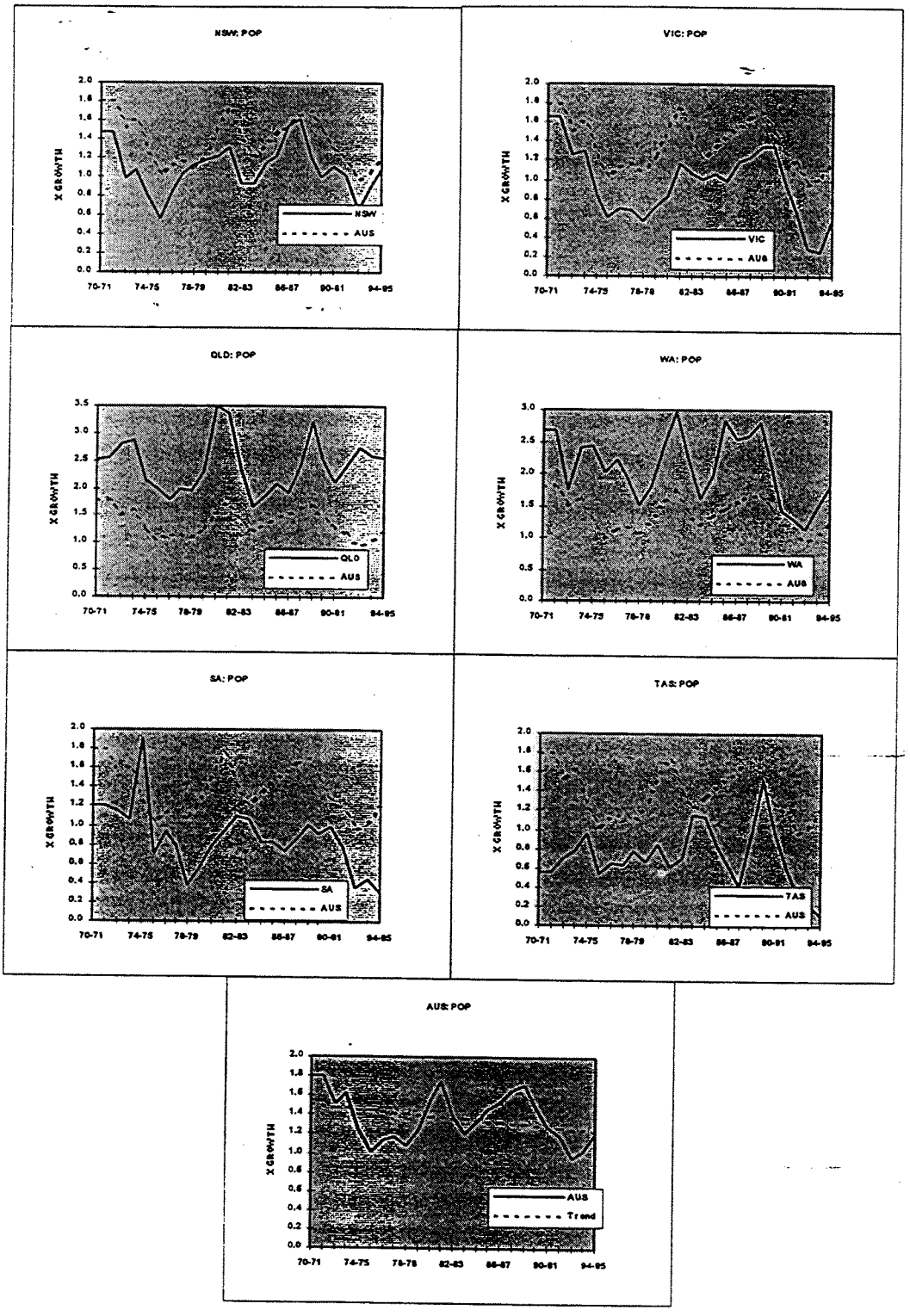
The structure of Australian government is characterised by both vertical and horizontal fiscal imbalance. The data presented in this paper shows that during the last 25 years both forms of imbalance have been reduced.

Commonwealth and State and Local expenditure have increased by approximately the same amount, but State and Local income has increased by more than Commonwealth income. Moreover, State and Local own source income has been responsible for this income growth, which infers a decreasing reliance on Commonwealth government grants by States. The other point is that any growth in grants has been due to SPPs, mainly in the areas of education and health, and not GPPs. This may mean increased Commonwealth influence on States policies in these areas.

As GPPs are the payments used to redress the horizontal fiscal imbalance, with these grants becoming relatively less important, the opportunity to compensate the States that suffer fiscal disadvantages is reduced. In addition, the analysis of GPPs reveals the level of compensation being paid to QLD, WA, SA and TAS at the expense of NSW and VIC are now smaller, again implying that the assessed horizontal imbalance is now less.

APPENDIX A: CHARTS

POPULATIONS.



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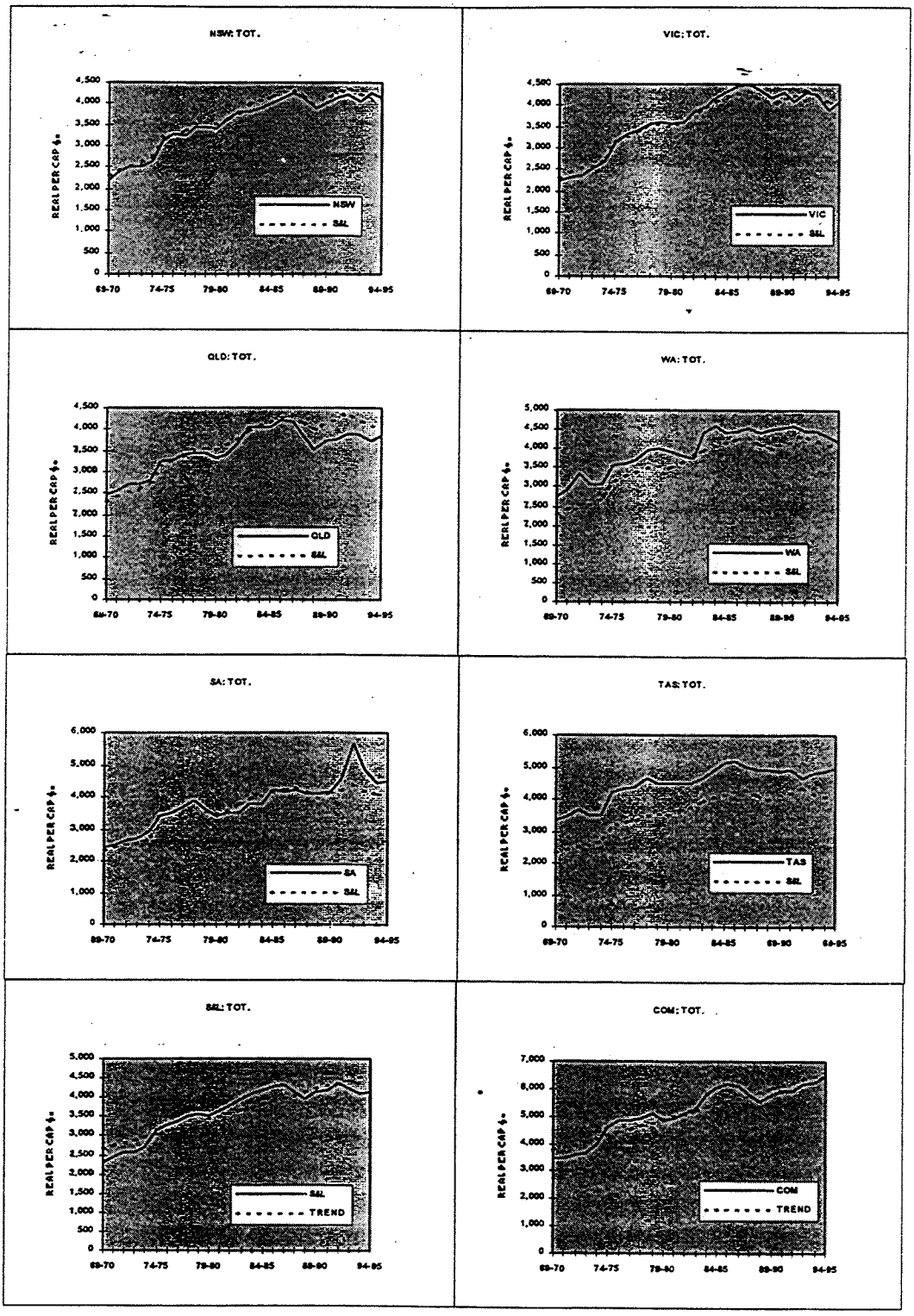
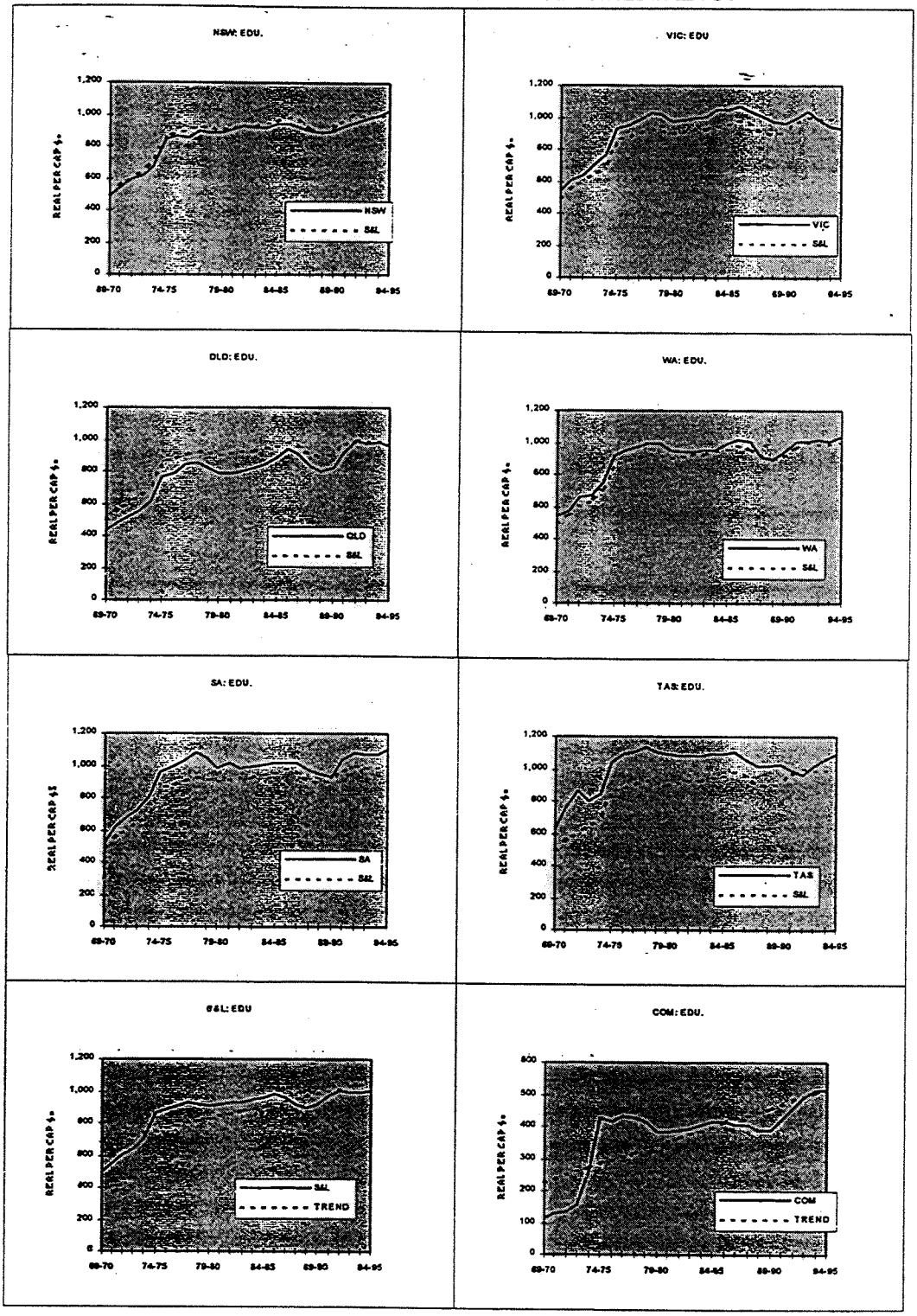
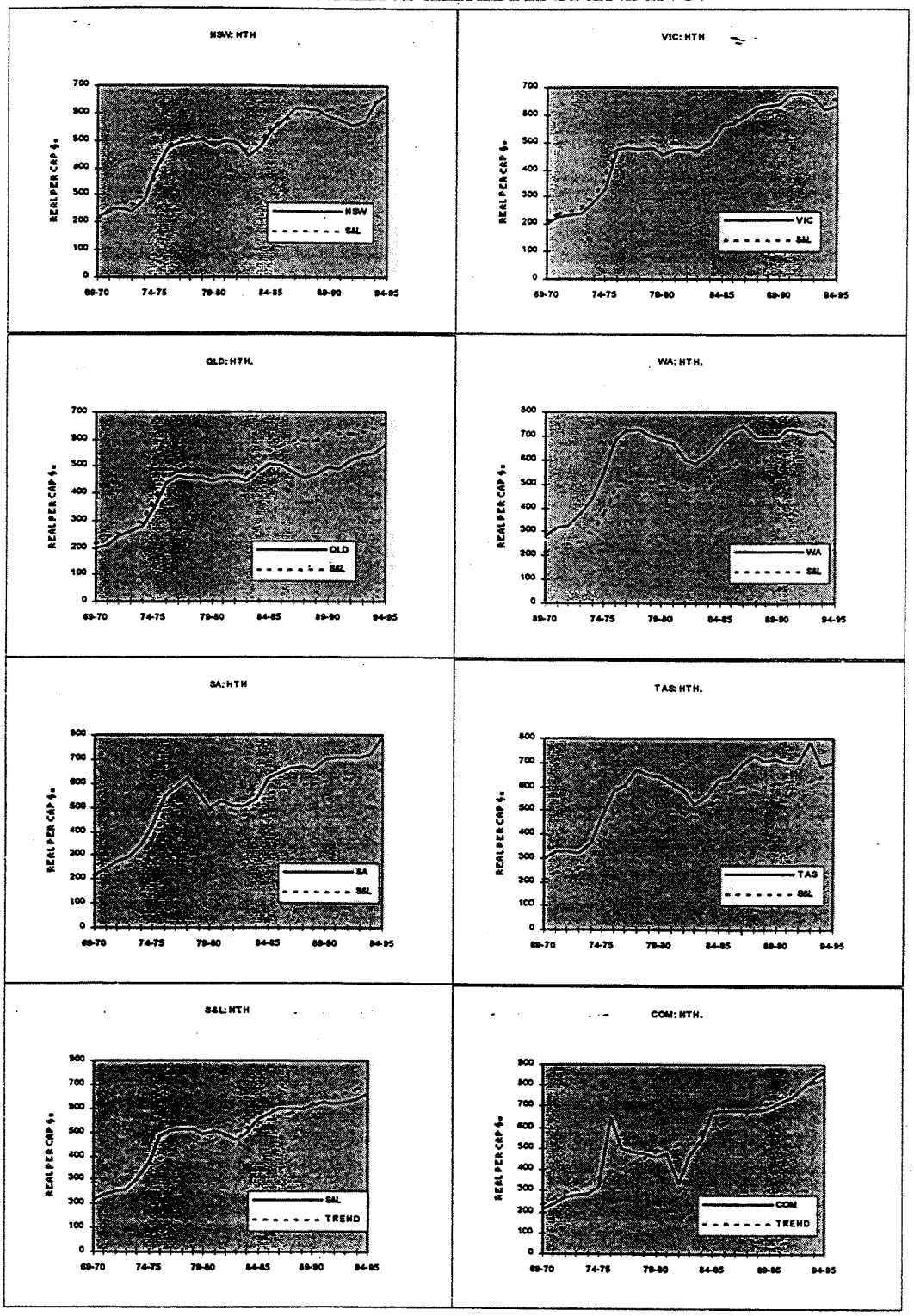


GOVERNMENT EDUCATION SPENDING.



GOVERNMENT HEALTH SPENDING.



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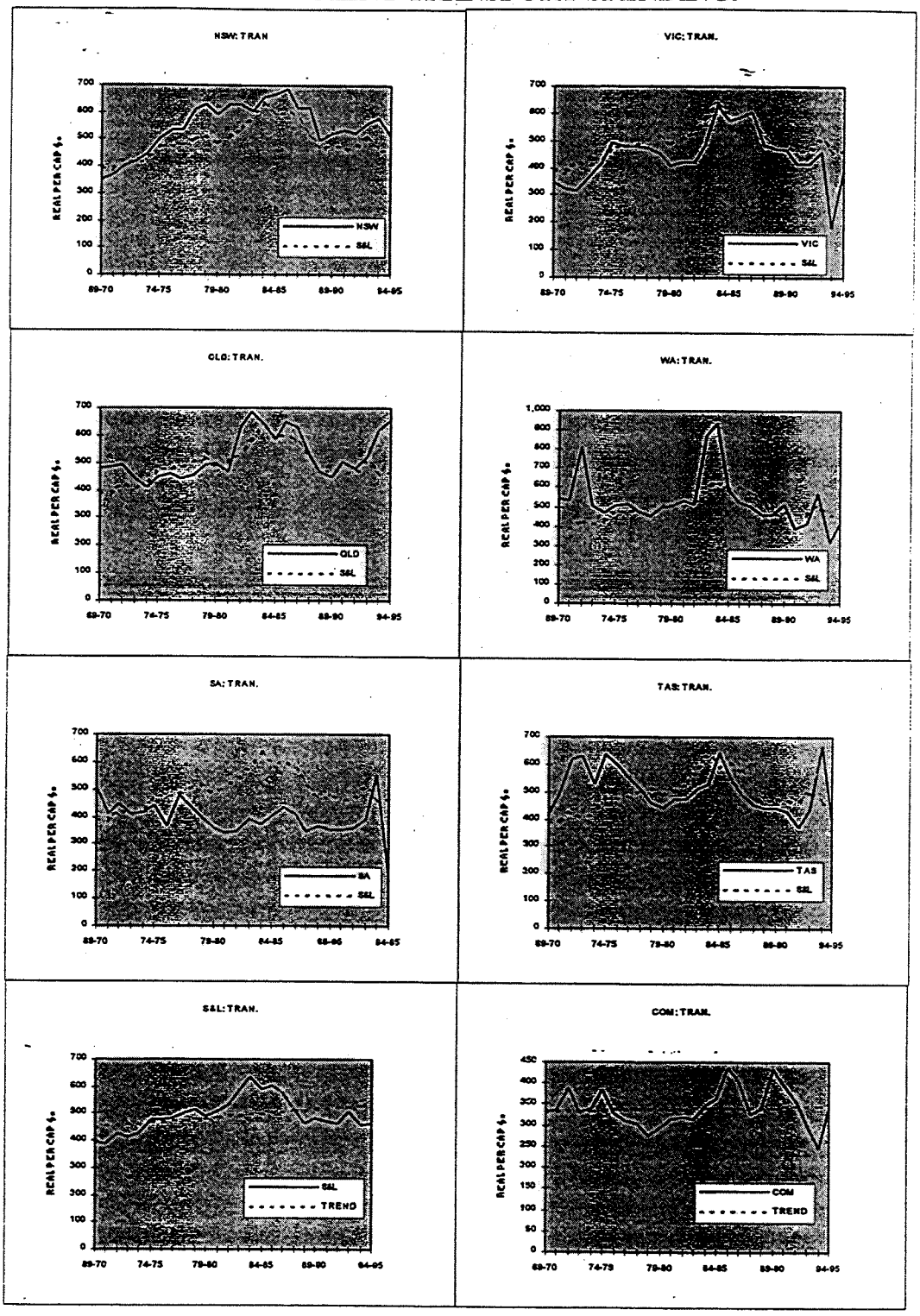
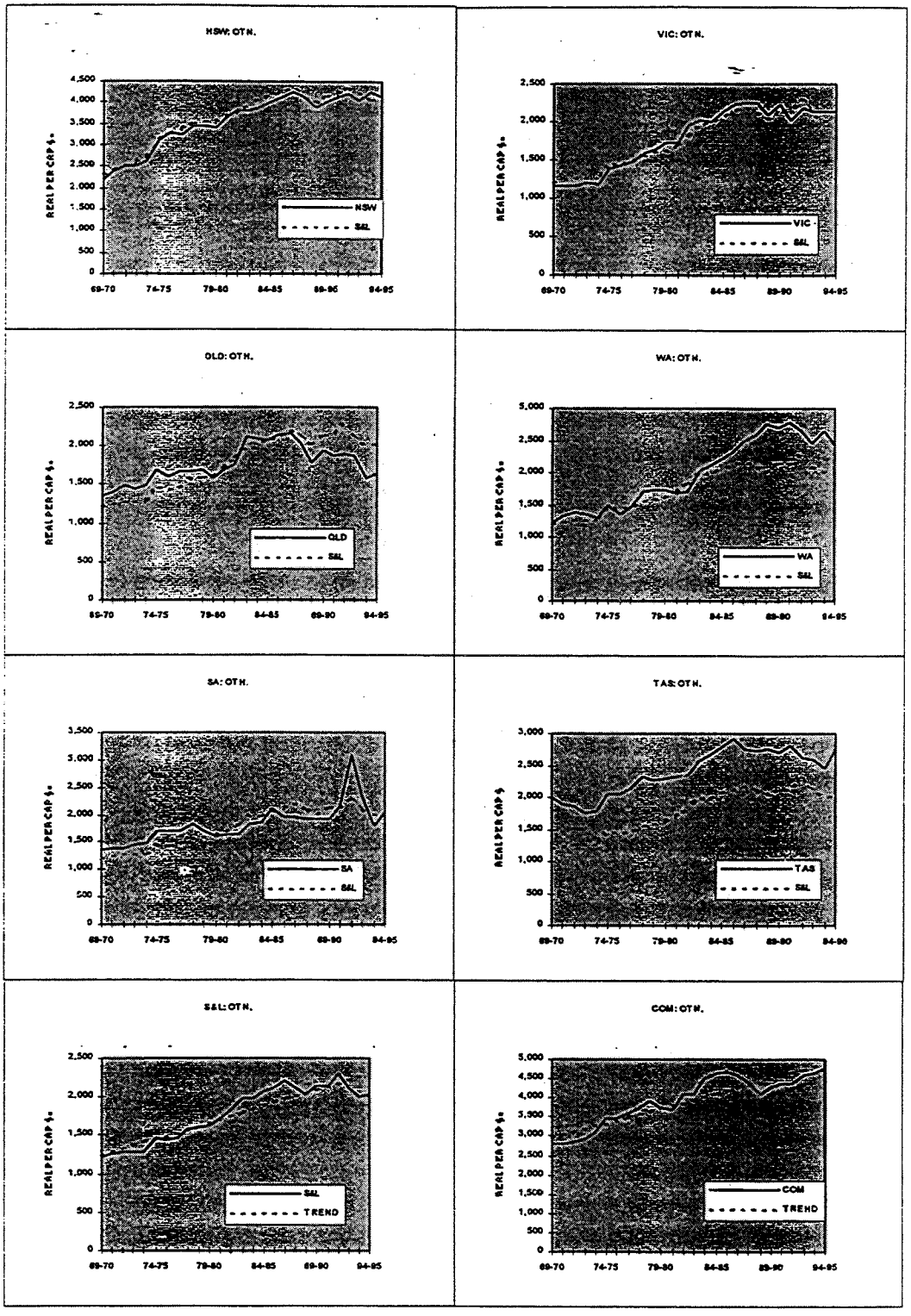
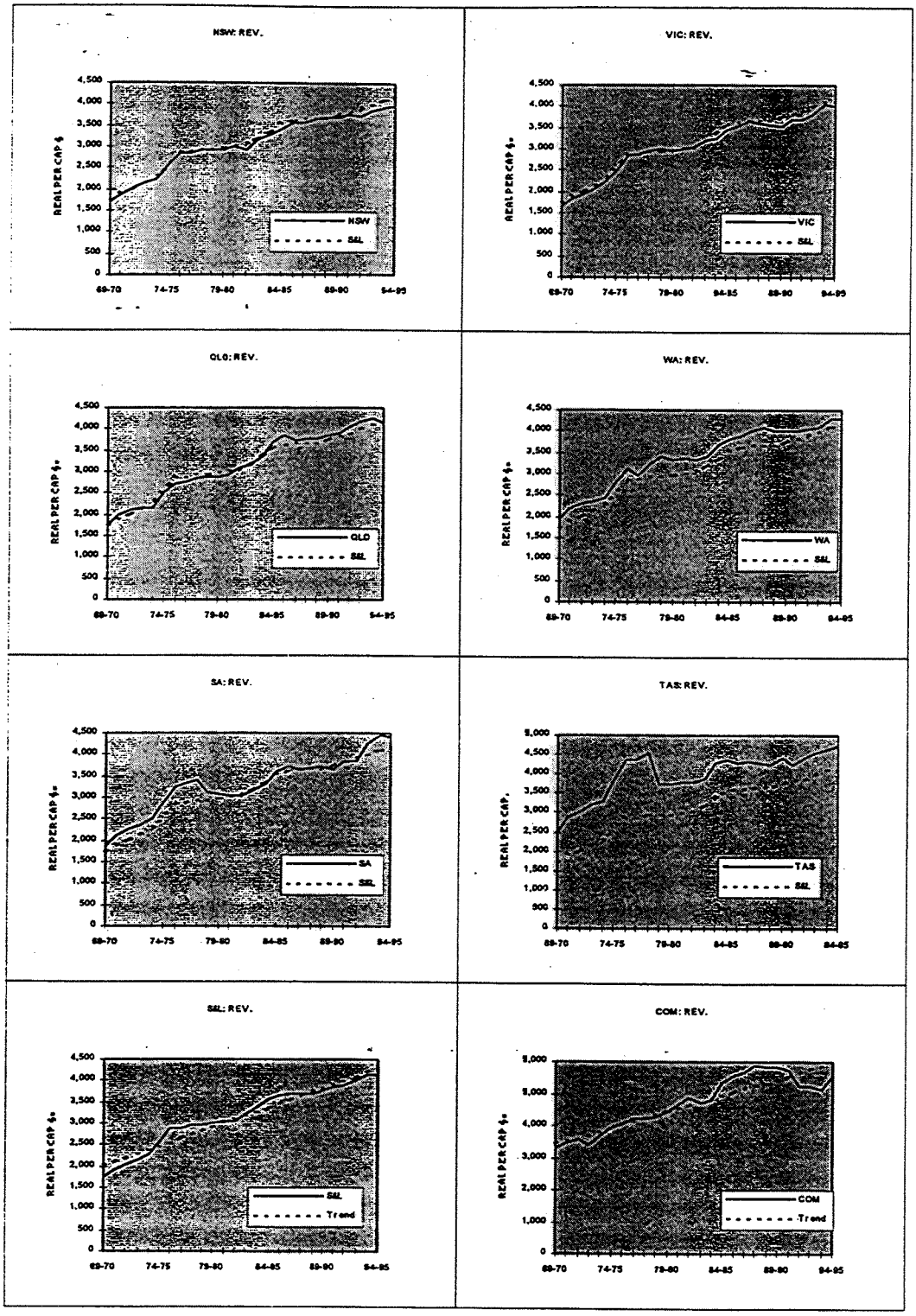


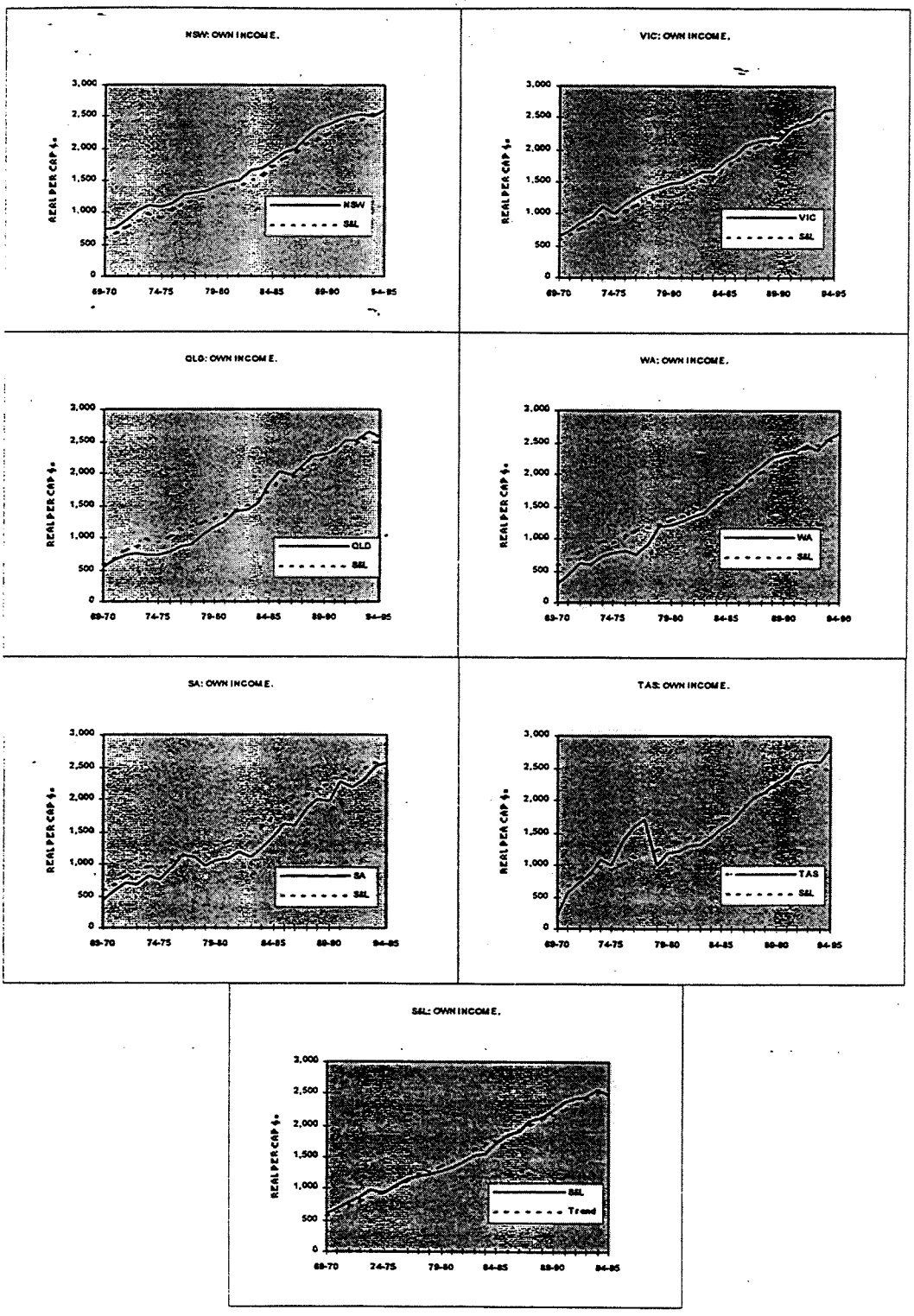
GOVERNMENT OTHER SPENDING.



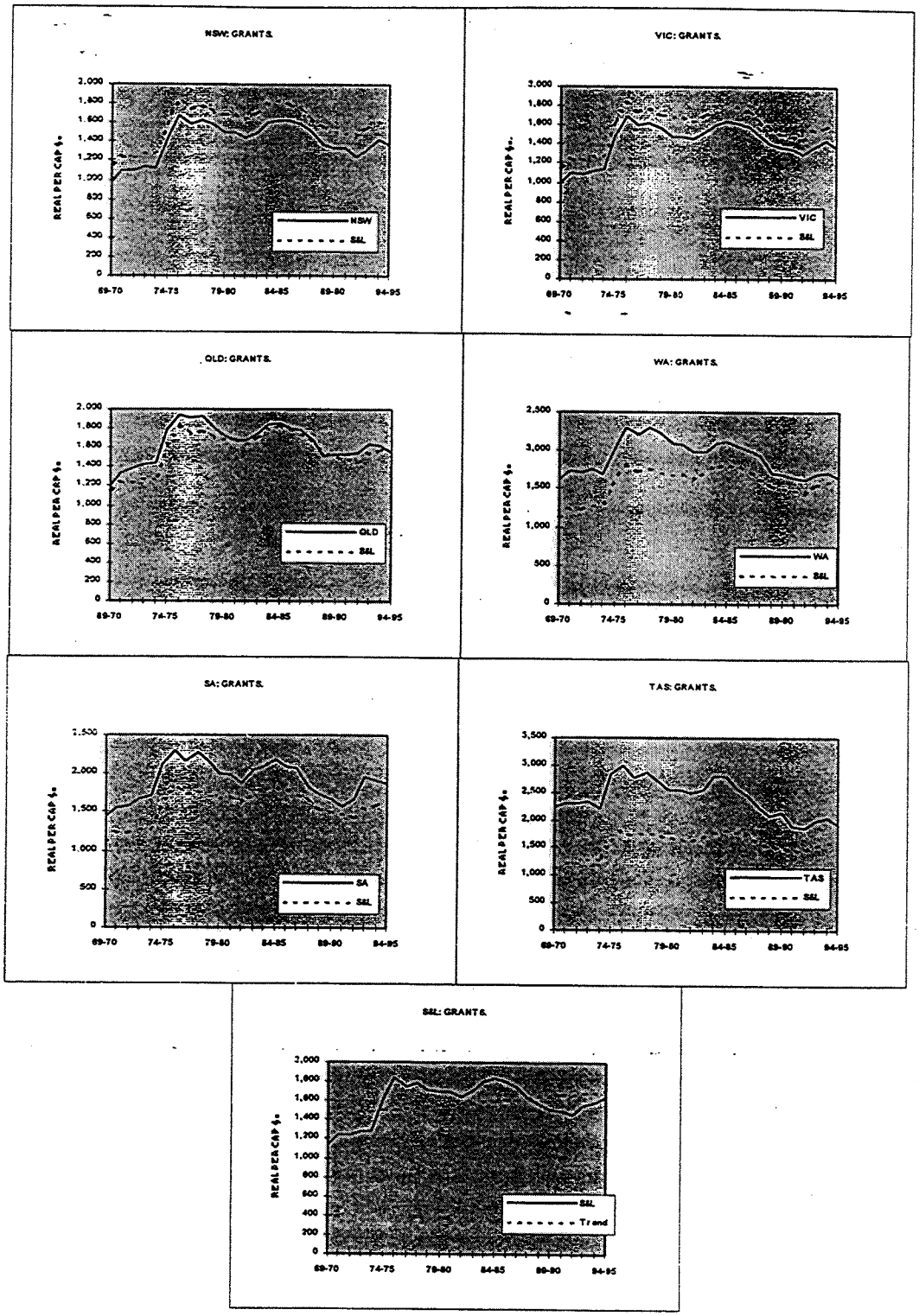
TOTAL REVENUE.



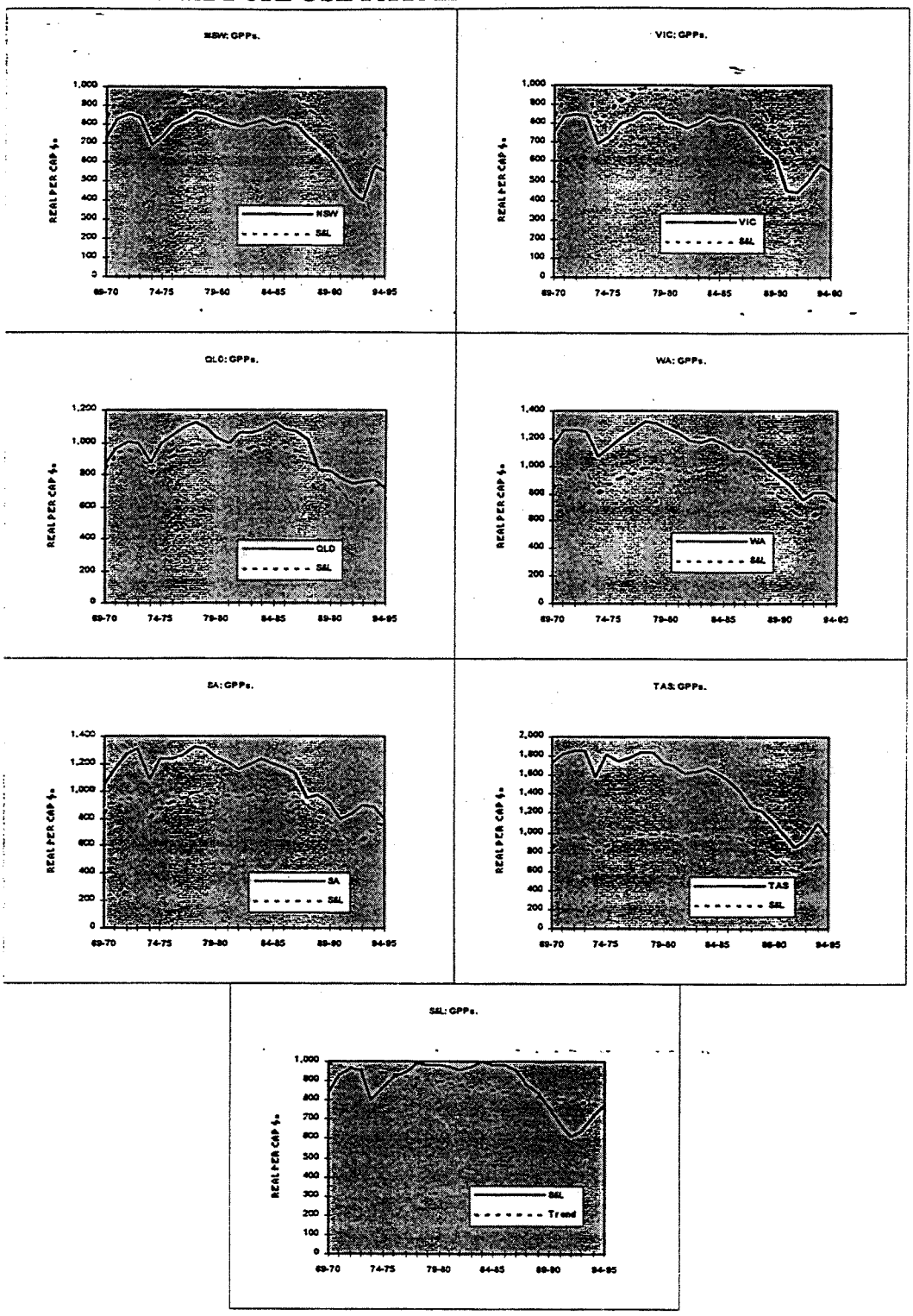
OWN SOURCE INCOME.



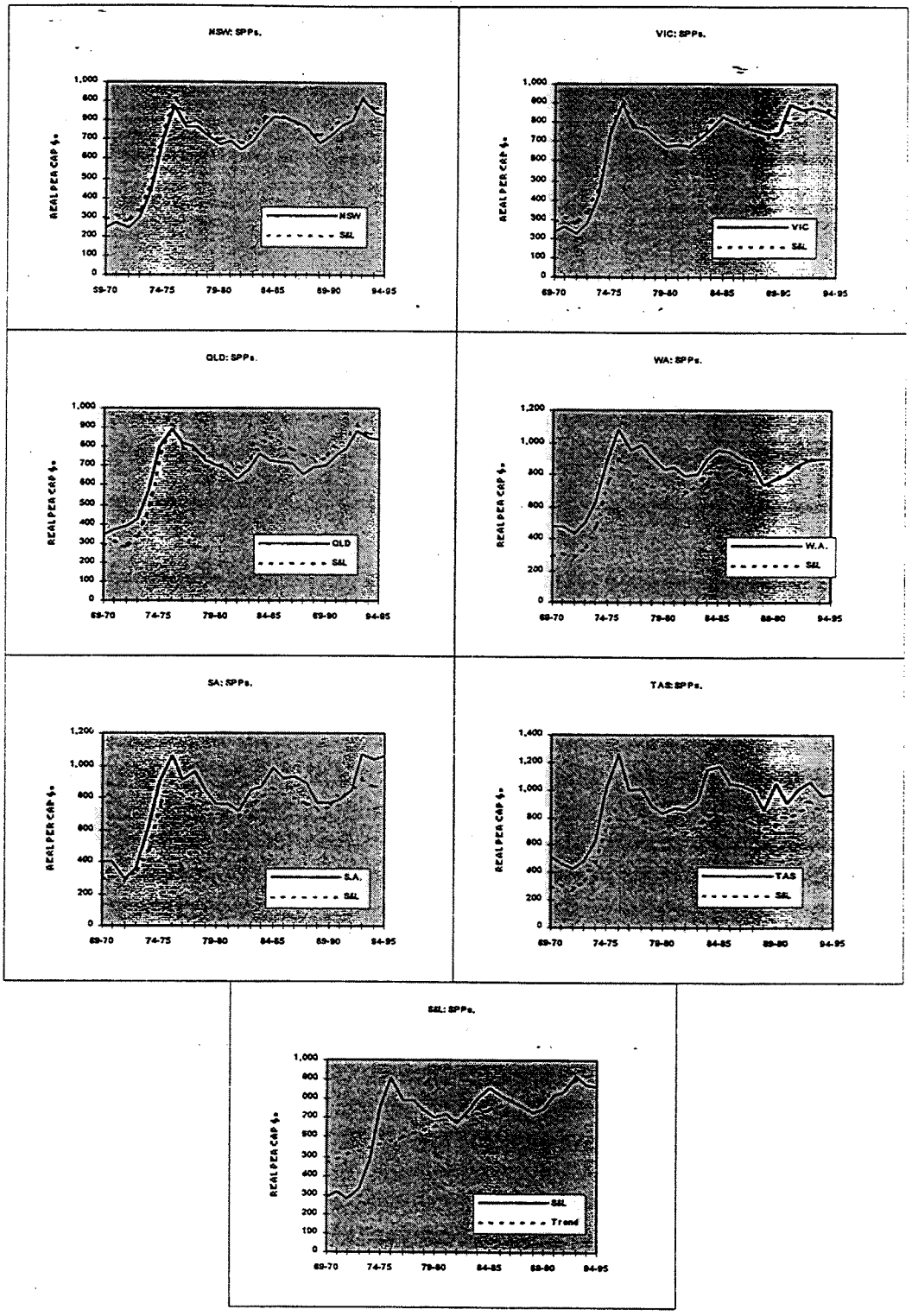
TOTAL GRANTS.



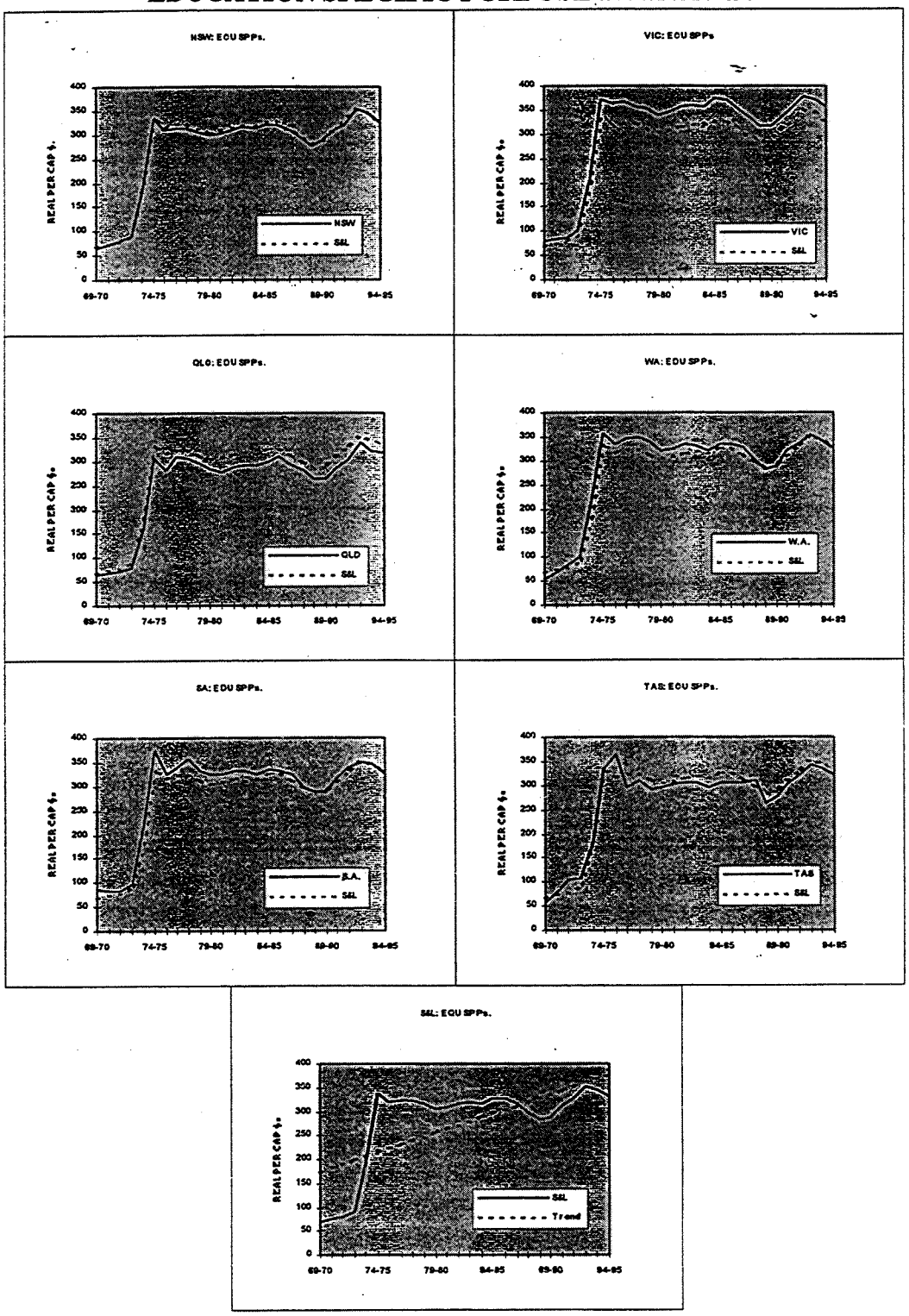
GENERAL PURPOSE PAYMENTS NET OF REPAYMENTS.



SPECIFIC PURPOSE PAYMENTS.



EDUCATION SPECIFIC PURPOSE PAYMENTS.



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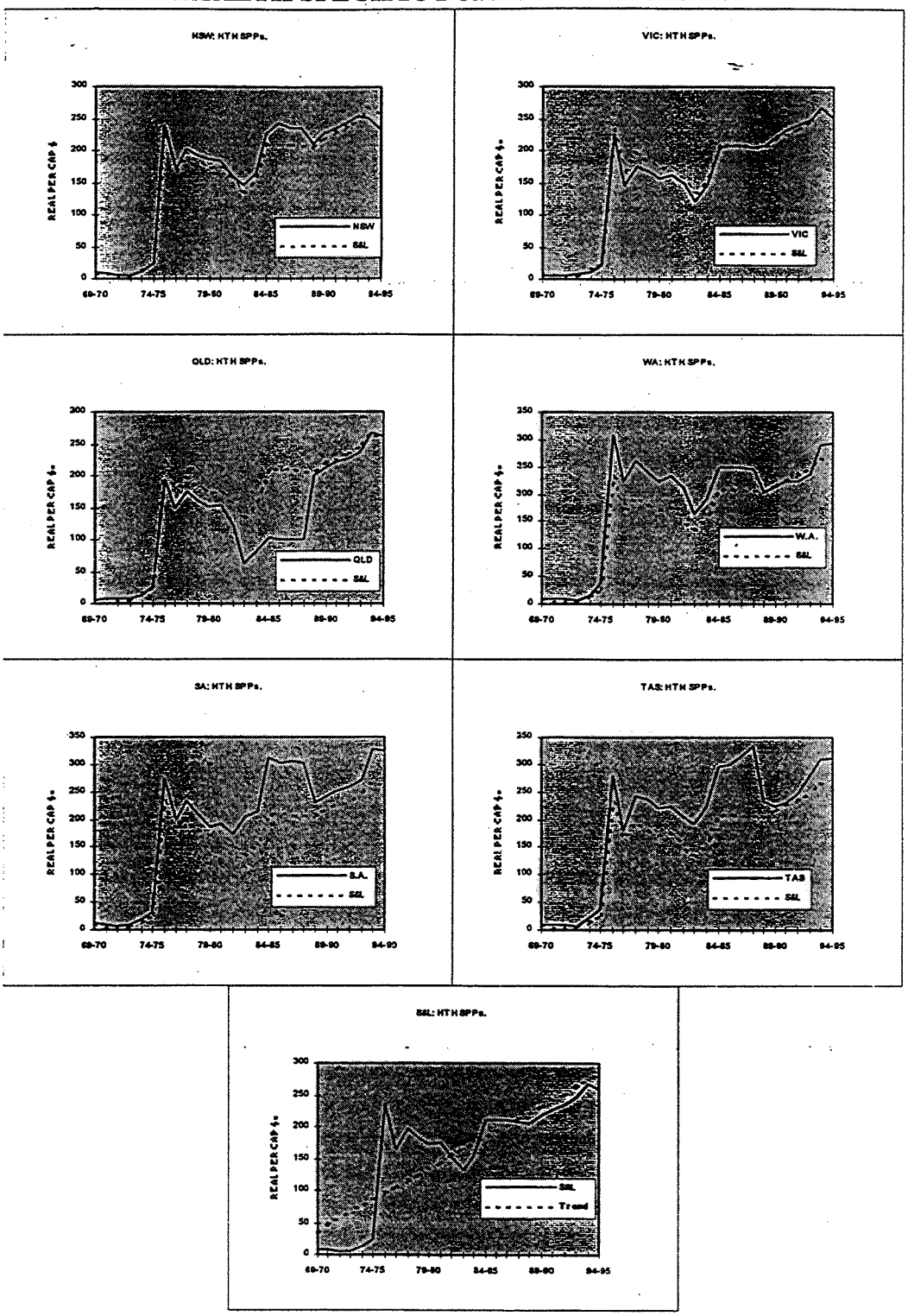
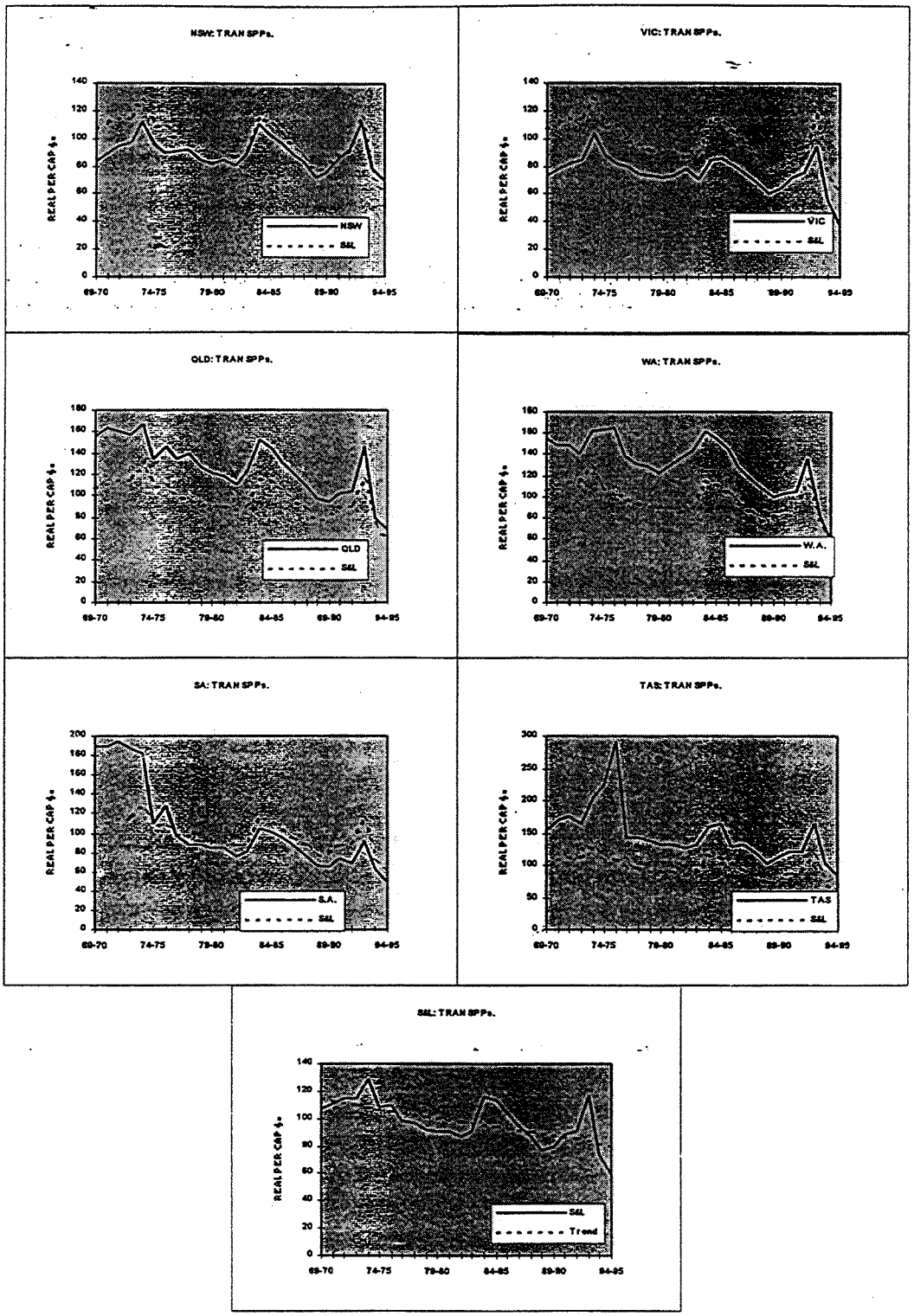
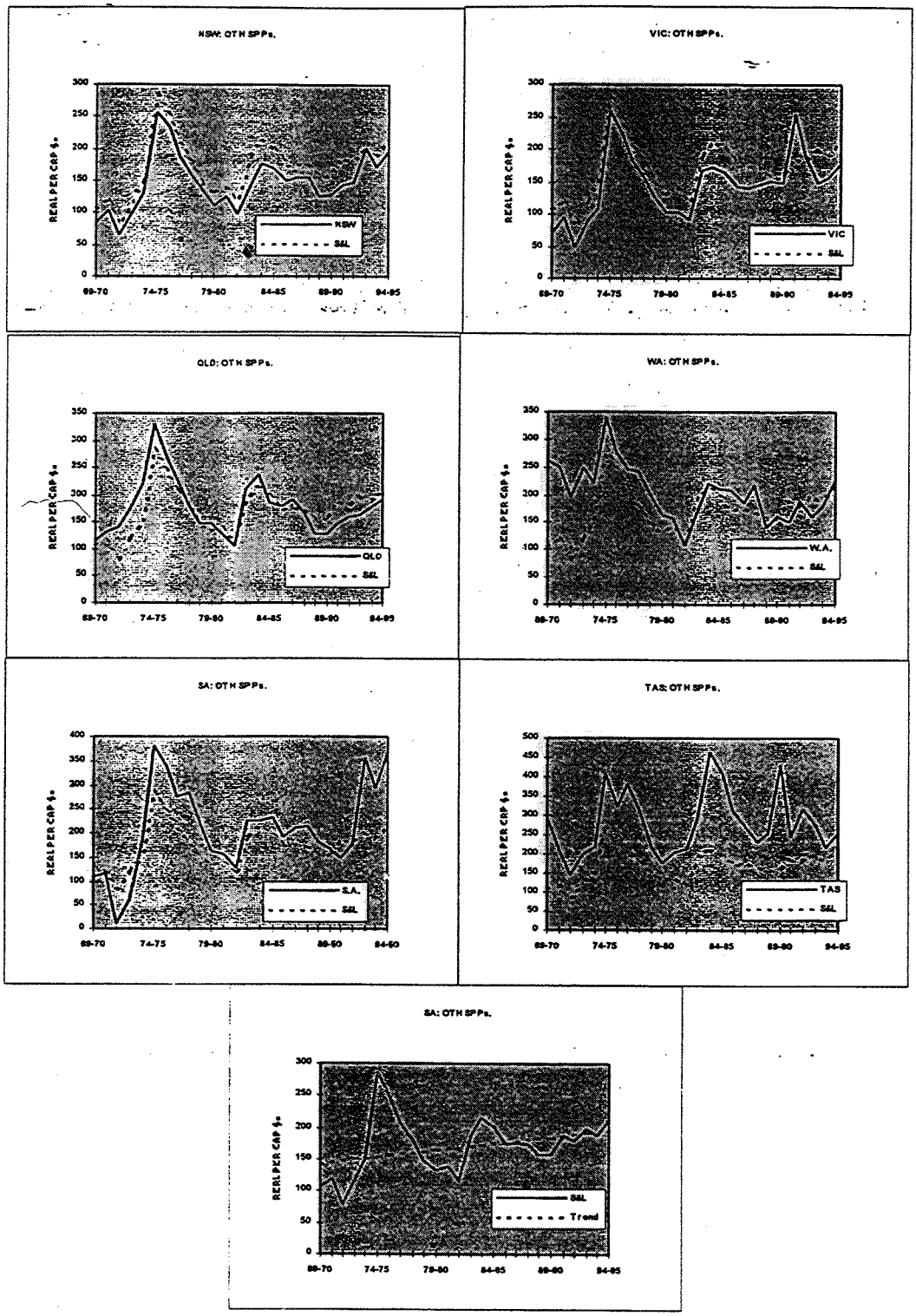


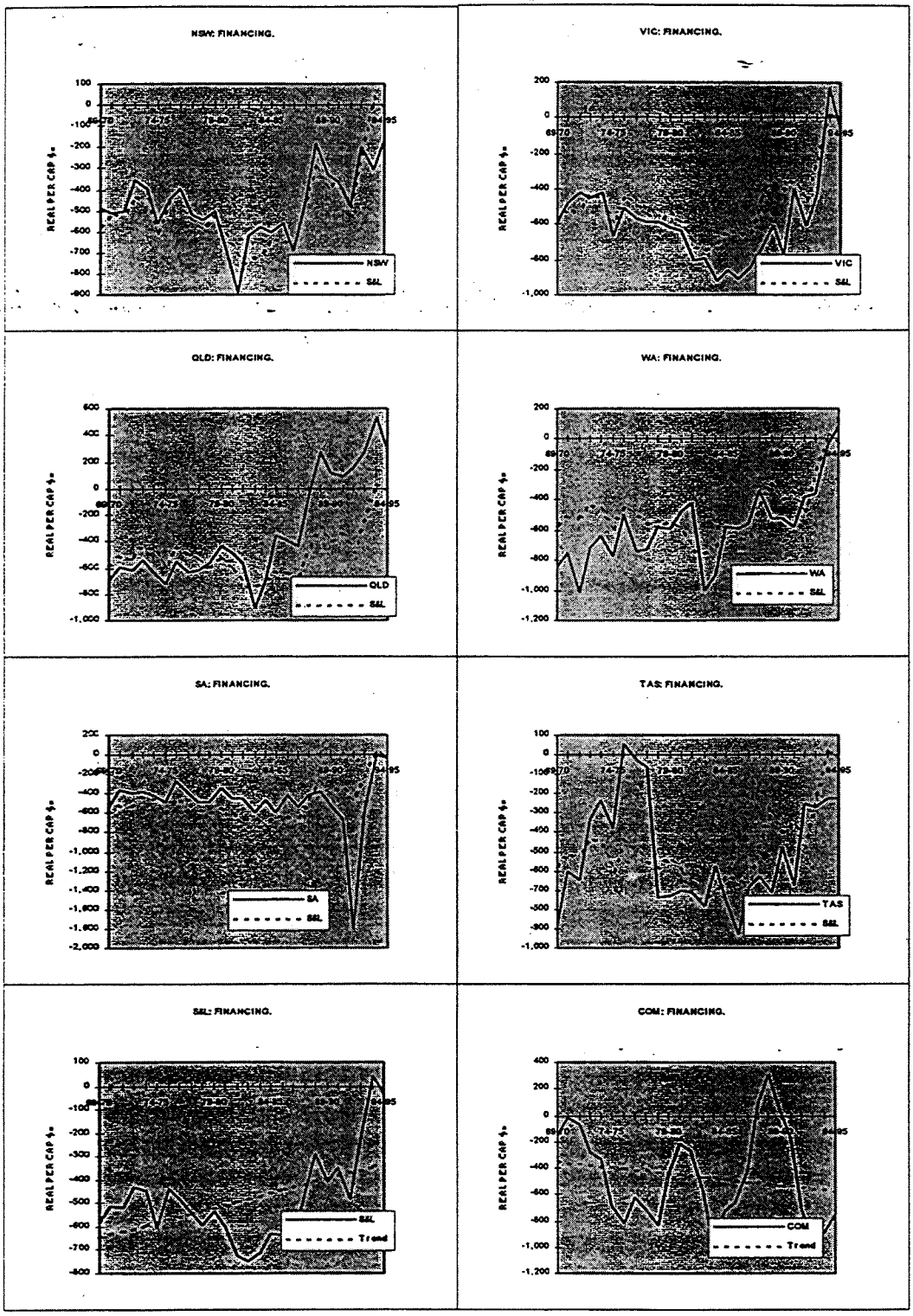
TRANSPORT SPECIFIC PURPOSE PAYMENTS.



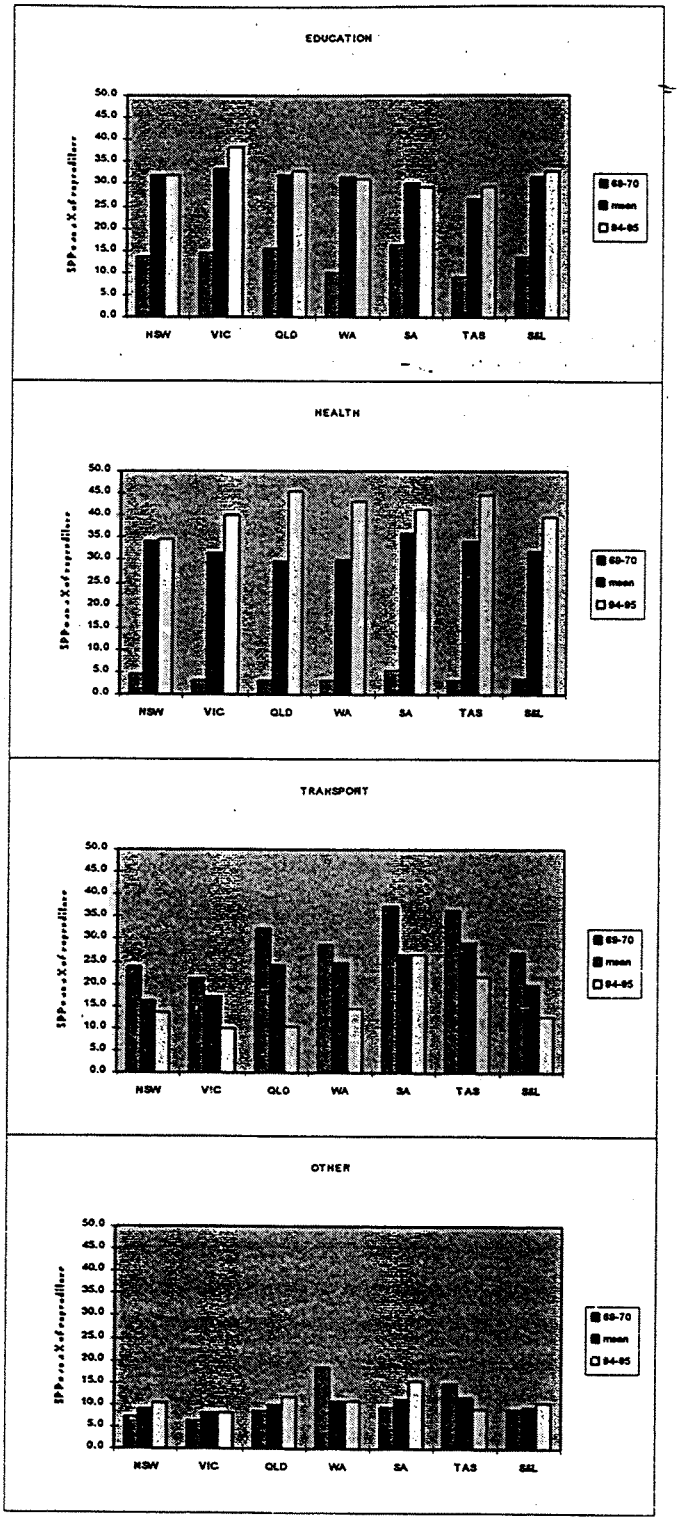
OTHER SPECIFIC PURPOSE PAYMENTS.



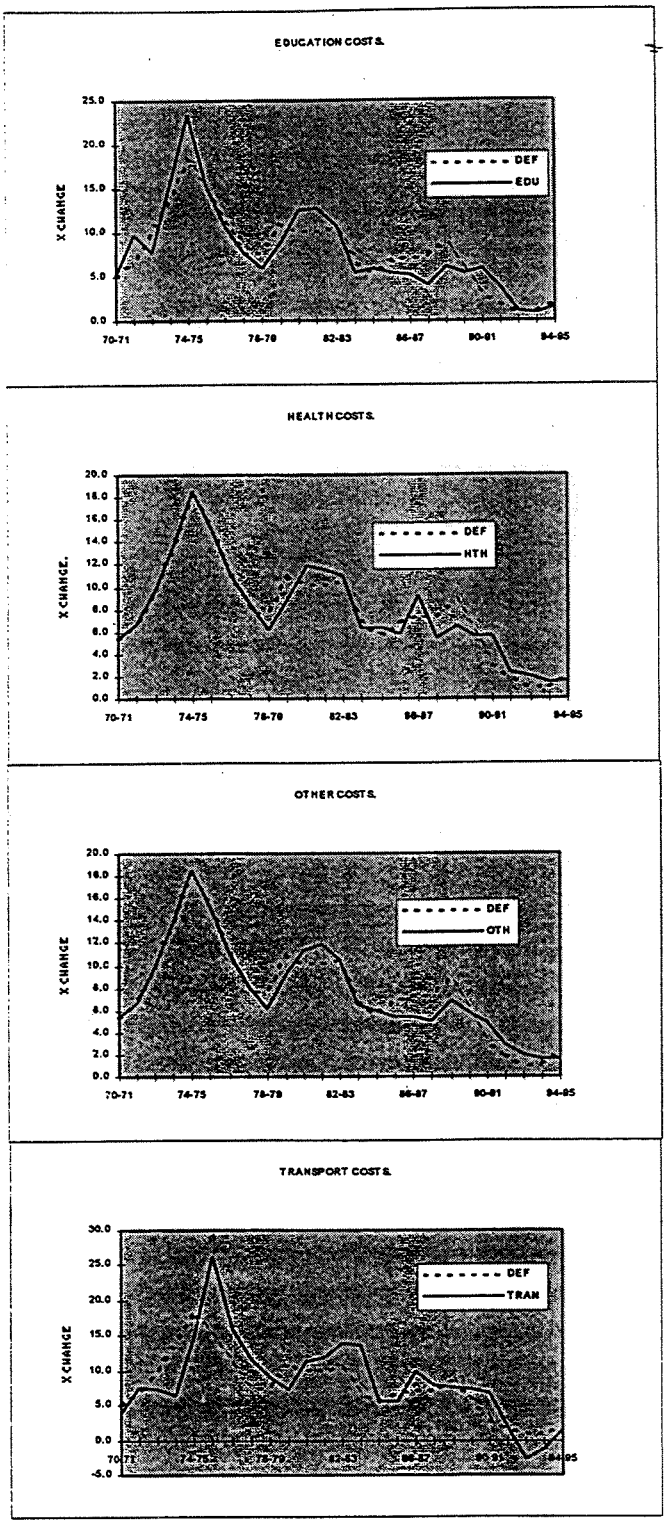
TOTAL FINANCING REQUIREMENTS.



SPPs AS A % OF EXPENDITURE.



GOVERNMENT COSTS.



APPENDIX B: THE DATA DEFINITIONS AND SOURCES.

The data covers the period 1969-70 to 1994-93. The data set was constructed using information from six sources:

1. **Population (State by State)** data are from ABS, *Australian Demographic Statistics* (3101.0).
2. **State and Local Government total expenditure (State by State).** Data from 1988-89 to 1994-95 are from ABS, *Government Finance Statistics* (5512.0); 1969-70 to 1987-88 is unpublished estimates provided by the ABS on a basis consistent with later years. Expenditure is broken into four categories Education, Health, Transport and Other (= total expenditure less expenditure in the other three categories).
3. **Grants from the Commonwealth to State and Local Governments (State by State).** Both General Purpose Payments and the Specific Purpose Payments are from Commonwealth Budget Papers. The Specific Purpose Payments were divided into those for Education, Health, Transport and Other.
4. **State and Local Government total income (State by State).** Data from 1988-89 to 1994-95 are from the ABS, *Government Finance Statistics* (5512.0); 1969-70 to 1987-88 is unpublished estimates provided by the ABS on a basis consistent with later years. The data for State Government own source income was derived by subtracting Commonwealth Government Grants from total income.
5. **Price indexes of Government Services (State by State).** These were constructed from 1969-70 to 1994-95 for **Education, Health, Transport** and **Other** government expenditure on a State by State basis using data from five different sources:
   (i) **The GDP implicit price deflator.** This came from the ABS, *Australian National Accounts, National Income, Expenditure and Product* (5204.0) for the years 1969-70 to 1992-93.
   (ii) **The implicit price deflator for non-dwelling construction.** This also is from the ABS, *Australian National Accounts* (5204.0).
   (iii) **The Consumer Price Index for each State.** The data was taken from 1969-70 to 1994-95 from the ABS, *Consumer Price Index* (6401.0).
   (iv) **The implicit price deflators on a State by State basis for Education, Health and Other.** These were obtained directly from the ABS for the June quarters for each year from 1977 to 1992 as unpublished estimates.
   (v) **The implicit price deflators on a State by State basis for Education, Hospitals and Total.** These were also obtained directly from the ABS for the June quarters of each year from 1977 to 1995 again as unpublished estimates.
   (vi) **Schools Commission Recurrent Price Indexes for State Government Schools.** This came from the Schools Commission for the years 1970-71 to 1982-83.

   The data in (iv) was used as the base for three of the four price indexes (**education, health** and **other** for each State). To obtain the last three data points 1992-93 to 1994-95 the data in (iv) was linked to that from (v), that is **education, health** and **other** were increased by the same percentage changes as eduction, hospitals and total from (v). For the figures before 1977-78 data from (i), (iii), (iv) and (vi) were used. The data in (iii) was changed to show price movements in each State (as a difference from the six State averages). This was then used to convert both (i) and (vi) to a State by State basis. The State by State index derived from (vi) was then linked to the **education** price index for early years. While the State by State index derived from (i) was linked to both the **health** and **other** price indexes to complete the series.

   The transport price index was derived from (ii). This may be justified as the largest State and Local transport expenditure item is roads. This index was converted to a State by State basis using the same technique that was used for the pre-1977-78 figures for the other three indexes.

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