

# Submission to the Standing Committee on Finance and Public Administration

## Inquiry into Nation Building and Jobs Plan

### 1. Summary of Submissions:

- The Commonwealth should not borrow to make so called tax free "taxation bonuses".
- The Commonwealth should not borrow to make s 96 grants to the States in respect of functions which are State responsibilities. If the States wish to spend funds on capital works for schools and housing then they should evaluate the merits of the expenditure and then, if thought fit, borrow the money. No objection could be taken to using s 105A of the *Australian Constitution* to authorize the Commonwealth to borrow on behalf of the States and to on lend the borrowings. Then the borrowing and expenditure would be matched and fall where it should. As presently presented, the plan should be rejected because to adapt Sawyer's aphorism<sup>1</sup>, *those who borrow, do not have to justify the expenditure and those who spend, do not have to justify the borrowing*. Here the Commonwealth is usurping the responsibilities of the States.
- How was the quantum of \$ 42 bn. fixed ? It smacks of being derived from the fact that the Commonwealth needed to borrow roughly \$80 bn (\$76 bn) to plug the taxation shortfall gap. Perhaps, by taking 50% of the \$80 bn tax borrowing, was as good a "guesstimate" as any to finance expenditure to lift aggregate demand. It then merely became an exercise in allocating funds to unsolicited so called "good ideas" such as insulating homes and tax bonuses.
- The present plan is in truth a revised budget and should be rigorously scrutinized by the Parliament, including a plan for the retirement of the additional \$125 bn borrowing.
- As presently framed the plan should be rejected and the Government invited to submit a new plan.

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<sup>1</sup> 'Those who tax, do not have to justify the expenditure and those who spend, do not have to justify the taxation'. Geoffrey Sawyer, "New Federalism" in Dean Jaensch (ed), *The Politics of New Federalism*, (Australasian Political Studies Association, Flinders University, 1977), 17.

2. The key to the plan is the Bill to increase the issue of Commonwealth Inscribed Stock by \$125 billion (bn) from \$75 bn to \$200 bn<sup>2</sup>.

3. The main purpose of this increased funding is to finance expenditure previously met from taxation revenue.<sup>3</sup> Over the next four years to 30 June 2012, it is projected that there will be a shortfall in taxation revenue of \$76 bn.<sup>4</sup> Under the plan, additional borrowings of \$42 bn are proposed for so called *Nation Building and Jobs*, This amounts to \$118 bn which roughly represents the need for issuing \$125 bn of new Commonwealth Inscribed Stock.

4. This projected expenditure will result in cash deficits<sup>5</sup> as follows:

|   |              |
|---|--------------|
| • 2009                                  | -22.5        |
| • 2010                                  | -35.5        |
| • 2011                                  | -34.3        |
| • 2012                                  | <u>-25.7</u> |
| Accumulated deficit - <u>\$118.0 bn</u> |              |

5. The main purpose of the borrowing (nearly 2/3rds of the total) is to replace the shortfall in taxation revenue so as maintain an equivalent level of Commonwealth functions and services. In short, it seems that there is likely to be little, if any, reduction in Commonwealth employment. Instead, employment is likely to increase to support the implementation of the plan.

6. The elements of the *Nation Building and Jobs Plan*<sup>6</sup> are as follows:

|   |                   |
|---|-------------------|
| • S. 96 Grants - Capital construction works for State Schools     | 14.7              |
| • S. 96 Grants - Capital construction works for State Housing*    | 6.6               |
| • S.96 Grants - Insulating homes in the States                    | 3.8               |
| • Income tax capital equipment allowance                          | 2.7               |
| • S. 96 Grants - Boom gates, black spots and other State projects | 1.0               |
| • Tax free Bonus payments (\$950)                                 | 8.2               |
| • Single income family bonus ( \$950)                             | 1.4               |
| • Back to School Bonus ( \$950)                                   | 2.6               |
| • Training and learning bonus (\$950)                             | <u>0.5</u>        |
| Total   | \$ <u>41.5</u> bn |

\* Includes Cth Defence Housing (\$252 million)

<sup>2</sup> S.5A Commonwealth Inscribed Stock Amendment Bill 2009

<sup>3</sup> Updated Economic and Fiscal Outlook (UEFO), February 2009 at p.45.

< [http://www.budget.gov.au/2008-09/content/uefo/download/Combined\\_UEFO.pdf](http://www.budget.gov.au/2008-09/content/uefo/download/Combined_UEFO.pdf)>

<sup>4</sup> UEFO at p.40 (2009 - \$9.5 bn; 2010 -\$22.6bn; 2011- \$21.8 bn; 2012 - \$21.9 bn = \$75.8bn)

<sup>5</sup> UEFO at p.2; Table 1.1 Summary of budget aggregates

<sup>6</sup> UEFO at p.17; Table 2.1 Key components of the Nation Building and Jobs Plan.

7. S105A(1)(f) of the *Australian Constitution* provides for the Commonwealth to borrow on behalf of the States. If the States want this construction work to be done on schools and housing then the money should be on lent to the States at the appropriate rates of interest. It is submitted that borrowing to make s. 96 grants to the States is irresponsible. The States must be accountable for their activities. By signing the so called *National Partnership Agreement*<sup>7</sup> on 5 February, the States surrendered their responsibilities to the Commonwealth.



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<sup>7</sup> *National Partnership Agreement on the Nation Building and Jobs Plan: Building Prosperity for the Future and Supporting Jobs Now*  
< [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2009-02-05/docs/20090205\\_nation\\_building\\_jobs.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2009-02-05/docs/20090205_nation_building_jobs.pdf) >