



COMMONWEALTH GRANTS COMMISSION

DISCUSSION PAPER CGC 2002/6

**ECONOMIC DEVELOPMENT POLICIES: HOW SHOULD
EQUALISATION ACCOUNT FOR THEIR COSTS AND BENEFITS?**

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INTRODUCTION

1. In its submission for the 2004 Review, Western Australia argued that a State government influences the level of economic activity in the State and hence its revenue capacities through strategic investment in infrastructure, industry support and sound economic and governance policies.

2. Western Australia argued that the Commission's assessments do not treat the benefits of economic development policies and the costs States incur in implementing them symmetrically. It concluded that this approach created a disincentive for States to invest in projects that would increase their economic activity. It noted that some of the projects supported by State developmental actions also attracted support from the Commonwealth and that any disincentives for State actions could have undesirable effects on the nation.

3. It concluded that the revenue and expenditure effects of developmental policies should be treated symmetrically. That is, the assessment of revenue capacity should exclude economic activity attributable to State government policy, or expenditure needs should be assessed for the disabilities a State faces in developing that extra capacity.

4. The Northern Territory supported these arguments, but New South Wales, Victoria, South Australia and the ACT opposed them.

THE EXISTING ASSESSMENTS

5. Economic development policies are multi-faceted and wide-ranging. Submissions indicate they are implemented in many ways, including:

- (i) direct assistance, such as tax concessions, low interest loans, grants, subsidies, contracts guaranteeing government purchases (including take or pay), providing land at concessional costs and so on;
- (ii) undertaking or sponsoring broad industry or regional level research and exploration to provide knowledge of developmental potential;
- (iii) provision of basic infrastructure (water and power) to businesses or to regions on a multi-user basis, with less than full cost recovery;
- (iv) providing social infrastructure (schools, hospitals, housing and so on) to support employees in areas where industry is being encouraged to operate;
- (v) general policies (pro-development economic, legal and regulatory policies) that create an environment conducive to development;

- (vi) investment in education and training aimed at ensuring a skilled workforce in the long term; and
- (vii) expenditure on some aspects of policing aimed at protecting industry.

6. These activities have an impact on the recurrent expenses the Commission includes in its equalisation budget in:

- (i) the Services to Industry categories, which include expenses associated with assisting primary industry; tourism; mining, fuel and energy; and manufacturing and other industry;
- (ii) the Concessions and Other Payments categories, which include concessions, subsidies and other payments by the general government sector to or on behalf of government enterprises providing Electricity and Gas Services, Water Supply and Sewerage Services, Freight Services, Urban Transit, Non-urban Passenger Transport, Other Public Trading Enterprises and Other Concessions;
- (iii) General Public Services, which includes general expenses associated with developing and administering overall economic policies;
- (iv) Roads;
- (v) Depreciation; and
- (vi) Debt Charges.

7. However, capital expenditures are not included in the equalisation budget. Nor are the expenses incurred directly by State trading enterprises (but any subsidies or other payments to those enterprises by the general government sector arising because of economic development initiatives are included).

8. Attachment A contains details of the assessments made in the above categories. It indicates that zero per capita needs¹ were assessed for:

- (i) industry assistance given to specific projects or businesses — about 35 per cent of expenses in the Services to Industry categories; and
- (ii) concessions and other payments to government trading enterprises that mainly relate to business activity, such as freight transport (including railway and port authorities), the general tariff concessions given to electricity and gas authorities, and the industry assistance element of water supply subsidies — about 45 per cent of expenses in the Concessions and Other Payments categories.

¹ That is, all States could provide the average level of service at the average per capita level of expense.

9. Zero needs were assessed in these areas because previous Commissions were unsure whether, on equity or efficiency grounds, a State which undertook a ‘developmental’ activity aimed at expanding its economic base should in effect be reimbursed by other States which have their own developmental objectives. They also considered it was feasible to charge users the full cost for some of the services (such as, freight).

10. Where differential per capita needs were assessed, they were generally based on disabilities that were not directly related to economic development needs. Thus, in general, State shares of the untied assistance were not affected by interstate differences in expenditure needs for economic development assistance.

11. On the revenue side of the budget, if any increased level of activity arose from the assistance, it was included in the measure of the revenue bases, implying the State has an increased revenue raising capacity². Thus, in general, State shares of untied assistance were affected by any economic activity arising from State economic developmental activities — all other things being equal, above average levels of success would lead to a reduced share of untied assistance.

VIEWS OF STATES IN 2004 REVIEW SUBMISSIONS

12. In Discussion Paper CGC 2001/12, *The Scope and Structure of the Standard Budget*, the Commission proposed including all expenses incurred by the general government sector on economic development in the equalisation budget. It invited submissions on whether disabilities were associated with those expenses and, if so, how they might be assessed.

13. New South Wales and Victoria submitted that the Commission’s assessments generally failed to account for long term or dynamic policy influences of individual States on revenue bases. *New South Wales* argued this could be overcome by adopting a global revenue assessment because it would focus on the economic incidence of taxes. It also proposed narrowing the scope of the standard budget to exclude expenses on ‘business welfare’, which in its view included economic development assistance.

14. *Victoria* proposed a greater use of sub-global revenue bases, and argued that disabilities should not be assessed for industry assistance expenses. It said that industry assistance was difficult to define since government investment in education, for example, could affect industry and influence revenue capacity as much as support to the mining sector.

² Since revenue standards are based on revenue collected, any concessions given as part of the assistance are reflected in the assessments as a reduced standard revenue and a reduced effective revenue raising effort by the State giving the concession – revenue raising effort is revenue collected, divided by the revenue base.

15. *Queensland* thought that it was not feasible to unravel the effects of development policies on revenue capacity, but that expenditure needs could be addressed by increasing the components within the services to industry categories that were subject to differential assessment. It also noted that the recurrent cost of infrastructure was captured within the depreciation and debt charges assessment.

16. *Western Australia* argued that the policies and performance of a State's government had a large influence on a State's economic activity, and hence its revenue capacity, and that there must be consistency between the revenue and the expenditure assessments. It argued that:

- (i) by basing the measures of revenue raising capacity on the actual level of activity in each State, the Commission treated increases in activity arising from State developmental policies as an increase in their revenue raising capacity and their share of the untied assistance is reduced accordingly; and
- (ii) some of the costs States incur in implementing their policies are excluded from the Commission's assessments and many of the costs that are included are considered to arise from the State's own (non-standard) policies, with the result that States are assessed to have equal per capita needs.

17. *Western Australia* thought it would be impractical to remove the effect of economic development policies from actual tax bases under the tax by tax approach, and proposed a global assessment of revenue capacity instead. It also suggested offsetting the cost of past assistance for economic development against current revenue capacity.

18. *Western Australia* also proposed changes to some expenditure assessments (including those for capital, roads and subsidies for utilities) to assess needs for the cost of some forms of State assistance to industry. It drew a distinction between assistance that:

- (i) was for the national good, such as to develop the mining industry; and
- (ii) resulted in no net national gain, such as costs of interstate competition.

19. It proposed an assessment of differential needs for the former, with a disability factor based on differences between States in the rates of per capita growth in State product, but no assessment of differential needs for the latter type of assistance.

20. *South Australia* said that differential needs for expenses related to economic development should not be assessed and that an EPC assessment should be made for the cost component in Depreciation and other relevant categories. It was wary of the practical difficulties of estimating the costs of economic development assistance.

21. *Tasmania* had no problem with the inclusion of the costs of economic development in the assessments, so long as expenses and associated disabilities were

properly identified and measured. During its workplace discussions, Tasmania noted that all States play an important role in enhancing economic growth and have established departments of State development for that purpose. It argued that any assessments should recognise that States will have to spend different per capita amounts to achieve a similar result in assisting new industry and supporting existing industry.

22. The *ACT* opposed the inclusion of government expenses for industry assistance because it would encourage States to bid for industry to the detriment of national economic efficiency. Such assistance reflected a policy choice and there was no standard policy. It also said that it was unclear how an assessment would be undertaken.

23. The *Northern Territory* supported an assessment of needs for economic development, saying it was disadvantaged by its stage of development and lack of a private sector. It said government support was essential to establishing major projects, such as the proposed Timor Sea pipeline and the rail link between Alice Springs and Darwin.

THE ISSUES FOR CONSIDERATION

24. During the Western Australian workplace discussions, the Commission noted that State governments generally undertook expenditure that was intended to encourage or support economic development. Since the implementation of the equalisation principle is guided by 'what States do', operating expenses associated with economic development activity should be included in the equalisation budget, at least to the extent they were transactions in the General Government sector. The Commission also said that, in principle, equalisation assessments should treat the revenue and expenditure impacts of economic development activity on State budgets symmetrically.

25. The Commission said it had some sympathy with the Western Australian argument and that the case seemed strongest when there was an observable and direct relationship between the assistance provided and the increases in the revenue base. It invited Western Australia to demonstrate how an assessment might be achieved in a way that would improve equalisation.

26. The basic argument being made by Western Australia and the Northern Territory is that the current assessments do not treat the benefits arising from State economic development activities (specifically increased revenue bases) and the expenses incurred to generate those benefits symmetrically. Simply observing that differences between States in revenue bases are fully reflected in needs assessments but that no differential needs are assessed for expenditure on economic development does not, however, automatically imply the assessment process is asymmetrical. Links between State economic development activities and State revenue bases may not always exist (some activities may be unsuccessful) and it may be that there is no basis for assessing different expenditure needs for each State.

27. Nevertheless, there are two possible approaches that might be taken if the argument advanced by Western Australia and the Northern Territory were accepted.

(i) The broadest approach might be to:

- continue to base revenue assessments on the measures of the revenue bases in each State; but
- on the expense side of the budget, consider whether it is standard policy for States to incur expenses on economic development; and
- if so, consider whether disabilities are associated with those expenses, what they are and whether they can be measured in a policy neutral way.

This approach would consider all economic development expenses, including expenses that are not expected to generate extra tax revenues for the State and expenses that did not achieve their aim.

(ii) A narrower approach would examine the links between revenue bases and the State expenses that might have enhanced them. It would require a clear link between a State's economic development activities and the level of economic activity to be demonstrated. This link has not been established, but we are inclined to accept that it may exist in some cases, especially for major 'headline' projects. If the link were established, allowances could be made by either:

- adjusting the revenue bases to remove those elements that directly arose from State economic development activities; or
- adjusting standardised revenues to provide States with a standard rate of return on their expenditure.

ISSUES ASSOCIATED WITH AN EXPENDITURE ASSESSMENT

What are Economic Development Policies and is There a Standard Policy?

28. Economic development policies aim to attract new industry, assist existing industry and foster interstate competition. As noted in paragraph 5, the policies are broad and are implemented through a variety of interchangeable actions that may have direct or indirect effects. The specific actions chosen depend on the comparative advantages of the States and may vary from region to region, project to project and over time. Actions implemented in times of high growth would differ from those used in times of low growth.

29. Our tentative conclusions are that:

- (i) every State has policies aimed at promoting or retaining economic activity, and they compete with one another to varying degrees;
- (ii) they do so to increase employment, income or living standards of the residents in the State as a whole or in particular regions and, in turn, some of those benefits would increase State revenue bases.

30. Thus, there seems to be a broadly defined standard policy of undertaking activity aimed at increasing economic activity in the State, and through that the well-being of residents and the revenue bases of the State. Since one of the three pillars of equalisation is 'what States do', economic development activities should be included in the scope of equalisation and the Commission should consider whether disabilities are associated with it.

31. What States do to implement economic development policies may impact on State finances in many ways — such as through operating expenses, capital expenditures, increased expenses or reduced revenues of State trading enterprises, or revenue foregone. The question is whether the present coverage of the equalisation budget is sufficiently comprehensive.

32. At present, all operating expenses of the general government sector incurred in the assessment years are included in the equalisation budget. Thus:

- (i) operating expenses incurred directly by general government sector departments and agencies are included;
- (ii) capital expenditures associated with economic development assistance are excluded, but depreciation on or debt charges relating to the resulting assets are included;
- (iii) assistance provided directly by State trading enterprises (which may take the form of expenditure by the enterprises and/or revenue foregone by them) is excluded, but any subsequent subsidies from the general government sector are included.

33. This raises the question whether confining the equalisation budget to the impact on the operating expenses of the general government sector is sufficient. We are inclined to think it is because it is consistent with that adopted for all other functions covered by the assessments.

34. Two matters that require further consideration are:

- (i) the treatment of revenue foregone through tax exemptions; and
- (ii) expenditure incurred prior to the assessment period.

35. **Revenue foregone.** Given the many ways assistance may be provided, it would be desirable for any assessments to be as comprehensive as possible. If that is not the case, there may be incentives for States to structure their assistance in particular ways.

36. The equalisation budget implicitly reflects revenue foregone since revenues are lower than they would have been if the concessions had not been given³. This implies that effective revenue efforts are also lower. Whether a continuation of this approach would result in sufficiently comprehensive assessments is not yet clear. An alternative might be to explicitly treat revenue foregone as an expense — this may require an offsetting adjustment to the revenue side of the equalisation budget to maintain its internal consistency.

37. *Past expenditure.* There may be lengthy lags between State expenditure aimed at assisting economic development and any outcomes from that assistance, especially if the State expenditure takes the form of provision of infrastructure. For example, Western Australia has submitted that allowance should be made for expenses it incurred prior to the commencement of the North-West Shelf project.

38. Past capital expenditure should generally be taken into account through depreciation expenses relating to owned assets, but if the capital expenditure took the form of subsidises to State trading enterprises, it may not be included. It is not usual practice for expenditure incurred prior to the assessment period to be included in the equalisation budget. There would be large practical difficulties in attempting to include past expenses associated with assistance for industrial development.

39. *A practical issue.* While all operating expenses may be included in the equalisation budget, the GFS data used in preparing it does not contain a specific economic development classification. The expenses are currently allocated to classifications that reflect functions. For example, assistance provided by means of subsidised water or transport services would appear in the categories for Water and Transport Services respectively. Similarly, any extra expenditure incurred in providing higher quality education services would be in the Education categories and depreciation expenses on assets created for economic development purposes would be in the Depreciation category.

40. Undertaking assessments of differential needs would require details of the economic development components of the relevant GFS classifications. This raises questions of the feasibility and desirability of collecting details for all expenditure on direct and indirect assistance for economic development. Our present inclination, largely based on practical considerations, is that any differential assessments of assistance for industrial development should be confined to the main initiatives that States expect to have direct effects on economic development — rather than extended into all activities that might be classified as economic development assistance.

41. Any data collection would be done by expanding the collections proposed in the Discussion Paper CGC 2002/38 *Services to Industry*.

³ This may not be so if the project would not have proceeded without the concessions.

Disabilities Associated with Economic Development

42. The Commission assesses differential needs for transactions included in the equalisation budget if it can identify and measure them in a policy neutral way. That is, if it can identify and measure the main non-policy influences that would result in a State incurring per capita expenses that differ from the average if it applied the standard policy.

43. We have established that all States undertake economic development activities — undertaking economic development activities represents a standard policy. However, identifying any disabilities associated with State economic development initiatives would be a difficult and contentious process.

44. The actions of State governments suggest similar basic aims of economic development activities. Those aims include improving the broadly defined well-being of State populations or, more narrowly, improving employment opportunities and increasing economic activity. The key question is whether States have different per capita needs.

45. Submissions from States that argue for different per capita needs take opposing positions on the nature of the disabilities. Some argue that disabilities arise because a State has above average development potential and it must compete with international locations to assist the potential become reality. Others argue that disabilities arise if the State has below average potential, with the implication that greater levels of assistance are required to create potential in the interest of maintaining the well-being of the residents of that State. Some argue that disabilities exist if the State has comparative disadvantages (such as, it is further from markets, its markets are small, elements of its cost structure are high or it has a less skilled workforce).

46. For the Commission, the task is one of ascertaining whether there are features of the demographic, economic or geographic circumstances of States that require them to be more (or less) active than others in providing economic development assistance. If not, equal per capita assessments would be appropriate.

47. The diverse nature of economic development activities suggests that it may be desirable to define any disabilities in broad terms. This view is supported by submissions which argue that disabilities should be measured in terms of the per capita level of GSP or growth in GSP. (Again there is no agreement on whether a positive disability exists if GSP (or growth in GSP) is above or below the average.) At this stage, we are not convinced that GSP can be used as an indicator of disability. Moreover, it can be affected by many things, with State economic development activities being only one of them. In some cases, Commonwealth policies may be an equally large or larger influence. There would also be an issue of allowing for the lags between when State economic development activities take place and when any effect is reflected in GSP.

48. There is also a question of whether disabilities reflecting interstate differences in the 'unit cost' of activities should be assessed. For example, it may be that

less populous States would have a scale disability if it costs them more per capita to assemble the level of resources required to support a project of a given size⁴. Or more support might be required in States where economic activity is dominated by small business because small businesses may have less resources to invest in development activities.

49. *Activities with indirect effects on economic development.* Similarly, it is not clear that the needs for activities that have indirect effects on economic development (such as improving the skills base of the workforce through greater expenditure on education), are materially different from other needs already assessed for those services. Is the mix of economic and social reasons for additional education expense relevant, when all States have a policy of improving educational outcomes?

50. The issues relating to the identification and measurement of disabilities are the most important ones for further consideration. If different per capita expenditure needs are to be assessed for economic development activities, we must reach positions on:

- (i) what drives the level of State economic development activity;
- (ii) whether the per capita unit costs of economic development activities differ among the States for reasons beyond the control of individual States; and
- (iii) how disabilities might be measured in a policy neutral way — in this area, it will be particularly important that assessments do not create any incentives for States to vary the level of assistance they might otherwise provide, or the form of that assistance.

51. Further comment on these matters would assist us. However, our work so far indicates that assessing differential per capita expenditure needs for economic development activities on a policy neutral basis would be a difficult task.

REVENUE ASSESSMENTS

52. As noted in paragraph 27, an alternative but less comprehensive approach to economic development could be through an examination of the links between revenue bases and the State expenses that might have enhanced them. This approach would aim to address Western Australia's arguments on the asymmetry in the revenue and expenditure assessments.

53. The most pragmatic approaches may be:

⁴ It may be easier for larger States to assemble more attractive assistance packages.

- (i) to adjust the individual revenue bases to remove those elements that arose directly from State assistance for economic development; or
- (ii) to adjust total standardised revenues to provide States with a standard rate of return on their expenses in developing their revenue base.

54. These approaches appear simpler than the expenditure assessments. However, there are some important issues that require consideration, including:

- (i) adjusting revenue bases to exclude the contributions from activities that arose because of State development assistance:
 - would require judgement to decide whether and when the State development initiatives were crucial to the decision for activities to proceed;
 - might create a bias towards some States if the links between State initiatives and projects proceeding were more easily established for high profile developments in mining (or resource based industries) or tourism, but less so for manufacturing or service industries;
- (ii) adjusting standardised revenues for a standard rate of return on State expenses requires consideration of:
 - what expenses should be included — which raises issues similar to those discussed previously (how to treat capital expenditure, how to treat foregone revenue, should past expenses be included and if so how far back in time should we go);
 - the standard rate of return; and
 - the length of time States could expect to receive a standard rate of return.

55. These approaches would require data from each State on the expenses they incurred in assisting economic development. The first approach would also require data on:

- the components of State revenue bases that are attributable to State assistance — some independent verification that the State assistance was crucial to the project go-ahead would also be desirable; and
- the annual contributions those projects make to State revenues.

56. Any information provided by States would have to be carefully examined because there would be a direct link between the data and its effect on the assessments.

SUMMARY

57. Operating expenses of the State general government sector arising from economic development policies are included in the equalisation budget. They are included in categories that reflect the manner in which the assistance is provided (Concessions, Services to Industry, Roads, Depreciation and so on). Many of the expenses are currently assessed not to have differential needs associated with them.

58. Since all States incur expenses on economic development, there is an in-principle case for re-examining whether differential needs are associated with those expenses. There are some issues to be considered in relation to what transactions should be included in the equalisation budget.

- (i) Should revenue foregone be explicitly treated as both a revenue and an expense?
- (ii) Should past expenses be included in the assessment?

59. Given the wide range of means by which economic development assistance is provided, practical considerations suggest any assessments would be best confined to measures that are expected to have a direct effect on levels of economic activity. Expenses incurred on indirect assistance (such as education) would continue to be assessed as part of the relevant functional (education) assessments.

60. The most important issue to consider is what disabilities exist and how might they be measured. It is not clear to us what needs should be assessed. That is, it is not clear that there are features of the demographic, economic or geographic circumstances of States that require them to be more (or less) active than others in providing economic development assistance. Further input from the parties is required to help us identify and measure any differential needs.

61. There are some large practical issues to be resolved before any expenditure needs associated with economic development could be assessed.

62. However, we do have some sympathy with the argument of Western Australia that the revenue assessments are affected by projects that exist, at least partly, because of State assistance and that there is no allowance for the expenses incurred in assisting those projects. An approach of directly adjusting revenue assessments where there is a direct link between the project and the State assistance might be one means of addressing this matter. Another method might be to adjust State standardised revenues to allow a standard return on investments in economic development assistance. Even in these cases, there are major conceptual and data issues that must be considered further.

ATTACHMENT A

TREATMENT OF ECONOMIC DEVELOPMENT EXPENSES IN CURRENT ASSESSMENTS

1. Economic development policies affect some of the current assessments. This attachment outlines those effects under the methods adopted in the 1999 Review.

Expenditure Assessments

2. The Commission's expenditure assessments encompass all the recurrent expenses incurred by the general government sector of State governments. Consequently, many expenses associated with economic development policies were included in the equalisation budget. However, expenditure was not included in the equalisation budget if it took the form of:

- (i) capital expenditure, but the resulting depreciation expenses were included if the capital expenditure related to functions in the general government budget; or
- (ii) expenditure incurred by a government trading enterprise, although some effects were included if the trading enterprise received a contribution from the general government sector towards the expenditure incurred on developmental activities or if it made smaller dividend or other payments to the State.

3. However, inclusion of expenses in the equalisation budget did not automatically mean that different per capita needs were assessed, or that differential needs that were assessed reflected disabilities associated with economic development.

4. Expenses included in the equalisation budget were dissected on a functional basis, but the ABS GFS classification framework used in establishing the assessment categories did not include an economic development category. Expenses associated with economic development may have been in some, or all, of the following categories.

- (i) ***Services to Industry***. There were four categories relating to services to industry. They were: Primary Industry; Tourism; Manufacturing and Other Industry; and Mining, Fuel and Energy. Each included

expenses relating to administration, planning, regulation, research and support associated with the relevant industry. For assessment purposes, each category was subdivided into components and disabilities were assessed for expenses relating to:

- central office administration and policy activities; and
- regulation, training and research activities considered to be in the public interest.

Another common component of these categories was expenses relating to the support and promotion of local industries or research for the profit of individual businesses or groups of businesses⁵. This expense was currently assessed on an equal per capita (EPC) basis. The Commission considered that these expenses should not be subject to equalisation and that interstate differences in the per capita expenses predominantly arose from differences in State policies. It was also concerned that an assessment of disabilities that might be associated with these expenses could lead to an inefficient allocation of resources across the nation.

- (ii) ***Concessions and Other Payments.*** This group of categories included concessions, subsidies and other payments by the general government sector to or on behalf of government enterprises providing Electricity and Gas Services, Water Supply and Sewerage Services, Freight Services, Non-urban Passenger Transport, Other Public Trading Enterprises, and Other Concessions. Some of these payments may have related to expenses incurred (or revenue foregone) by the enterprises in supporting economic development or providing infrastructure for development.

However, the disabilities assessed for these categories generally related to the nature of the concessions and other payments, and the beneficiaries of them — frequently, people on social security benefits or the population of remote regions. Cases where the expenses may have related to economic development activities (such as the Freight and Other Public Trading Enterprises categories, the general tariff concessions component of the Electricity and Gas Services category and the industry assistance component of the Water Supply and Sewerage Services category) were assessed not to result in different per capita needs (EPC).

- (iii) ***Roads.*** The Roads category included recurrent expenditure associated with the upkeep and rehabilitation of State roads, highways and

⁵ Expenses associated with research and other support for private profit represent 21 per cent of gross expenses in the primary industry and mining categories, 52 per cent in manufacturing and 80 per cent in tourism.

bridges, road safety, regulation and support of transport services. While the road use disability assessed for this category reflected traffic generated by successful developments, it did not capture any disabilities associated with State support for development. Nor did the category include depreciation arising from State roads that might have been built to open up areas for development.

- (iv) **General Public Services.** This category included a wide range of expenses associated with developing and administering overall economic policies, some of which may have related to State developmental policies. It also included expenses for mapping and surveying (including geological mapping) which may have been used to assist development. However, the disabilities assessed for this category reflected diseconomies of small scale in administration, population dispersion and input costs, they did not relate directly to any needs associated with development opportunities.
- (v) **Depreciation.** This category included recurrent costs arising from the use of capital facilities by general government, which could have included capital provided to assist or encourage development. However, if the capital expenditure was made by a State trading enterprise, depreciation expenses were not generally included in the assessment – they might have been indirectly included if they affected the subsidies in the Concessions categories, but disabilities would not have been assessed.
- (vi) **Debt Charges.** This category included any general government interest costs arising from past expenses for development assistance.

Revenue Assessments

5. If States provided assistance in the form of tax concessions, it was not reflected in the standard revenues. The standard revenues were Australia-wide actual per capita collections – they were not adjusted to include any revenues foregone. In the categories most affected by concessions (Mining Revenue and Payroll Taxation) the revenue bases were measured using actual levels of taxable activity, with the result that the granting of concessions implied a lower effective revenue raising effort.

6. If development assistance was provided by trading enterprises not recovering the full costs of their services, the general government sector may have been affected through lower dividends from the enterprises. The Commission did not recognise any needs associated with those revenues because the assessment was made on an EPC basis.

7. The most likely avenues through which States receive returns from economic development are Mining Revenue and Payroll Tax. States which succeed in encouraging mining activity were assessed as having an increased revenue raising capacity, because the

revenue base was actual adjusted value added in its mining industry (or wages paid in the case of payroll tax). The measurement of the revenue bases did not take account of any government expenses incurred in establishing or supporting the mining activity (or other businesses that pay payroll tax).