This is the published version (version of record) of:


Available from Deakin Research Online:

http://hdl.handle.net/10536/DRO/DU:30005877

Reproduced with kind permission of the copyright owner.

Copyright : ©2005, Australasian Political Science Association
Taxation, social expenditure and labourism in the Australian states, 1911-40

Dr. Geoff Robinson
School of International & Political Studies
Faculty of Arts
Deakin University
PO Box 423
Warrnambool
Victoria 3280
Australia

Email: geoffrev.robinson@deakin.edu.au
1. Introduction:

This paper is a preliminary analysis of aspects of Australian state government public finance from around 1910 to 1940. My focus is on state taxation and social expenditure, with the later defined as direct payments to individuals, such as pensions and the maternity bonus, and also expenditure on in-kind social services, in this period health and education. It is part of a broader research focus that applies quantitative methodologies to the examination of Australian political history in the first half of the last century. In this paper I am particularly concerned with the extent to which the presence of Labor governments influenced levels of taxation and social expenditure. With only six states a detailed quantitative cross-sectional analysis is not possible, but it is possible to identify some broad patterns that will inform further analysis of the determinants of taxation and public expenditure over time and to enable comparison between interwar Australia and other federal democracies. Thus the methodology of the paper is necessary qualitative and historical as well as quantitative.¹

The years around 1910 were ones of fundamental transformation in Australian politics. In all states and the Commonwealth a two-party politics emerged that pitted Labor against a united liberal-conservative bloc. From the early 1920s the new Country Party quickly found its place on the political right, with occasional exceptions in Victoria. Majority Labor governments were elected in the all the states and the Commonwealth in 1910-12 with the exception of Victoria. In 1910 the federal Labor government passed the Surplus Revenue Act, which replaced the previous payment by the Commonwealth of four-fifths of customs revenue to the states by fixed per capita payments. This Act was a landmark in the emergence of Commonwealth financial dominance.² The Commonwealth had already entered the sphere of direct income support with old-age pensions in 1908 and in 1912 it continued this expansion with the introduction of the maternity bonus. In 1915 the Commonwealth introduced a national income tax.
2. Public expenditure, taxation and labourism

The growth of public expenditure and taxation has been the object of substantial international enquiry. We can identify two divergent explanations. Some have argued that the growth of public expenditure is an inevitable result of modernisation and economic development, whether due to the social stresses resulted from an urbanised and individualised society or the simple factor that higher living standards led more room for government expenditure funded by taxation. Another approach would emphasise contingency, and point to the continued divergences between nation-states, as evidence that politics and culture does have an independent influence on levels of public expenditure and taxation. This approach might highlight the impact of democracy, as empowering the poor and insecure many, or the influence of political traditions potentially hostile to laisser-faire such as social democracy or political Catholicism.³

The first academic analysis of Australian public policy, such as James Bryce, Frederick Eggleston and W. K. Hancock, operated within a framework of Australian exceptionalism. Australia, a democracy with a strong workers’ party, was seen as foreshowing the future of democratic governance. These authors focused on industrial arbitration and tariff protection, but they also referred to social programs such as the old age pension and highlighted the nexus between Labor governments and public employees. The public employees that they gave most attention to were manual workers in state infrastructure providers but they also noted Labor’s emergence as the champion of public service interests.⁴

These authors popularised the idea of Labor as the ‘party of initiative’ as opposed to the conservatives who represented the ‘party of resistance’. In 1957 Jim Cairns interpreted the history of Australian social policy in this framework. The welfare state, he declared was driven by those who benefited which meant the working class, and after 1891 the Labor Party as the political vehicle of the working-class. In this perspective the absence of substantial social policy innovation at a federal level in the interwar years was due to Labor’s exclusion from federal office.⁵
Taxation policy received little attention from these authors but aspects of the history of Australian taxation could be explained within the framework of ‘initiative’ and ‘resistance’. It was a Labor government that led the way in explicitly linking taxation policy to social goals. The 1912 federal land tax introduced by the Fisher Labor government was justified not only as a means to raise revenue but also as a tool to encourage the breaking up of large land holdings. Its constitutional validity was unsuccessfully challenged in the Osborne case on the basis that it was hence not really a taxation act but a Commonwealth intervention into land management. The explanation of Australian taxation policy might seem to require Fritz Mann described as ‘fiscal sociology’ rather than public finance.

The idea of Labor as the party of initiative came under sustained attack in the 1950s. Henry Mayer and other rejected the assumption that Labor was by definition progressive. Mayer highlighted the extent to which advocates of this position assumed what they sought to prove, for example by attributing policy innovations of non-Labor governments to Labor pressure. Mayer argued that useful project would be to compare the policy record of a Labor-dominated state, such as Queensland with that of a non-Labor state such as Victoria. This paper takes up this challenge.

Noel Butlin’s model of ‘colonial socialism’, first developed in the 1950s also challenged the idea of Labor as the party of initiative. In his model Australian public finance had been most distinctive in the later nineteenth century long before the rise of Labor. In this period the Australian political economy was characterised by ‘colonial socialism’ in which the public sector played the dominant role of the state in the provision of physical infrastructure for rural development, the funds for this infrastructure being raised by colonial governments in London. Butlin developed this model further in his joint work Government and Capitalism with Alan Barnard and J. J. Pincus in the 1980s. They argued that the twentieth century had seen a decline of ‘colonial socialism’ as the public share of total investment declined and the focus of government expenditure shifted towards urban infrastructure and the provision of social and human services. This analysis suggested that the divergences between the Australian states would be economic rather than political, with the more urbanised states such as NSW and Victoria leading this trend towards modernisation.
In the 1980s the terms of Butlin's analysis were reversed by those who took a radical ‘political economy’ approach to Australian federalism. They divided Australian states into two groups: a rust-belt core economy of NSW, Victoria and South Australia based around manufacturing industry and a periphery of Western Australia and Queensland (Tasmania was largely ignored). The peripheral state economies were seen as linked to multinational mining companies, such as Utah. In the core governments clung to the welfare state but in the periphery the focus of public sector activity was increasingly that of the provision of subsidised infrastructure for multinational capital. In this analysis the political cultures and partisan alignments of states reflected their position in the emerging ‘Pacific Rim’ economy. This interpretation was congruent with theories of ‘Queensland exceptionalism’ that asserted a continuity between Bjelke-Petersen’s Queensland and the Labor Queensland of 1915-57 in terms of what Graeme Duncan and Ross Fitzgerald described as the continuing dominance of ‘racism, materialism, anti-intellectualism, anti-feminism, authoritarianism, moralism and populism’.  

These analyses reflected the polarised political climate of the late 1970s in which radical scholars cast Coalition governments were cast as the agents of a new radical right that sought to dismantle existing structures of social protection and incorporate Australia into a the Pacific Rim strategy of multinational capital. In this view Labor was criticised for its immobilism, and post-Whitlam preoccupation with ‘responsible economic management’. The more consensual climate of the 1980s together Labor’s embrace of economic restructuring and its support for public expenditure restraint encouraged the emergence of a new critique of labourism. Francis Castles argued that Australia was a wage-earners welfare state that sought to ensure full employment by tariffs and fair income by wage regulation. The result was a laggard development of the Australian welfare state. The focus of Castles’ analysis was on federal politics, but Stuart Macintyre noted that state Labor governments used loan-financed development workers to bolster their rural support. In 1989 Colin Forster argued that public investment was an underpinning of the labourist edifice as it increased the demand for unskilled labour and made sustainable the increase in wages for the low-paid that industrial arbitration provided. Advocates of Castles’ approach distinguished between social democracy and labourism. Social democracy was identified as redistribution via taxation and direct government payments, whereas
labourism was defined as redistribution by economic regulation. Labourism was seen as focusing on the rights and conditions of male wage-earner, social democracy was seen as directed towards a broader constituency of the disadvantaged, including those outside the paid workforce, such as women and children.

Taxation policy received little attention from the 1980s critics of labourism. However, some interwar writers had already questioned the influence of Labor on taxation policy and pointed to the significant role of indirect taxation in Australia as evidence that Labor's egalitarian commitment only influenced taxation policy at the margin. Pragmatic criteria of political acceptability were considered to have encouraged governments to employ less visible indirect taxes, as exemplified by a Federal Labor government's introduction of a national sales tax in 1930. The history of Australian income taxation also provided evidence for this case. The early proponents of income taxation in the Australian colonies tended to come from the liberal-radical end of the political spectrum, but the passage of such taxes into law depended on the acquiescence of conservative Legislative Councils. Their eventual acquiescence from the 1890s onwards was a pragmatic response to budgetary deficits. Tax policy followed expenditure policy rather than being a conscious vehicle of redistribution. The major analysis of Labor taxation policy completed in the 1980s was that of Rob Watts. He read Labor's fiscal and social policy revolution of the 1940s, the introduction of uniform taxation and the foundations of the national welfare state, as a pragmatic response to the stabilisation of a wartime capitalist economy at the expense of the working class.

In the 1980s Castles' concept of the wage-earners welfare state informed radical critiques of the Hawke government. The government's (early) commitment to wage indexation and tax cuts to safeguard working-class incomes was seen as an archetypal example of labourism. Feminist critics highlighted the gendered implications of Hawke's labourism. They argued that Labor's commitment to tax cuts necessarily implied a winding-back of the public sector with negative impacts for the disproportionately female constituencies of public sector workers and social welfare beneficiaries who were disproportionately female. Labor's support of centralised wage-fixation was also considered have frozen existing gender-based wage inequalities.
The radical critique of corporatism embedded as Labor's policies became more straightforwardly neo-liberal but the late 1980s saw the emergence of a new feminist critique of historical labourism that echoed many of the themes of the critics of corporatism. The central figure here was Marilyn Lake, who highlighted the focus of labourism on the male breadwinner and his rights at the expense of women.\textsuperscript{19} Her later history of feminism argued that Australian feminists had campaigned on a 'non-party basis' for the creation of a 'materialist welfare-state' centred on policies such as child endowment and health services for mothers and children.\textsuperscript{20} This model implied that Labor governments would not be associated with distinctive patterns of social expenditure; indeed their commitment to male working-class living standards and the institution of the 'family wage' suggested they would oppose them. Lake's emphasis on the non-party origins of the paternalist welfare state was taken up by Marian Sawer but with a different inflection. Sawer emphasised the congruence between feminism and social liberalism and suggested the existence of a cross-party consensus in Australia round support for the 'ethical state'.\textsuperscript{21} This suggested there would be little distinctive about the record of Labor in government, at least before Whitlam.

The conclusion we would draw from the recent scholarship on labourism is that state Labor governments would be expected to prioritise the interests of male wage-earners, through industrial arbitration and loan-financed public works programs, and would not be associated with high levels of social expenditure.

3. The Politics of the Australian States 1911-40:

The apparent Labor ascendancy in Australian politics that emerged before the First World War was short lived. By 1916 Labor retained government only in Queensland and the party was rent asunder by the conscription issues. But at the state level Labor's position quickly recovered. Queensland remained Labor's stronghold with the party losing only one election during this period. In the other states, except Victoria, Labor was back in power within two elections after the conscription split and even in Victoria Labor enjoyed its first prolonged periods in government during the 1920s.
The institutional and cultural underpinnings of Australian politics in this period suggest that political parties would have been well-placed to exercise influence on public policy. The administrative apparatuses of the states were a professional bureaucracy. There were large groups of voters whose interests were directly linked to the state, whether as employees, pensioners or holders of government debt. Michael Mann suggests that in Europe the overall economic role of governments declined during the nineteenth century as a major increase in social andinfrastructural expenditure was outweighed by a decline in military expenditure. In Australia however the colonies were always largely dependent on the imperial government for defence, and the later nineteenth century saw a steady growth in Australian levels of public expenditure. Adult male franchise came early to Australia and voters made use of the franchise; turnout levels were high even before compulsory voting. The integration of low income earners into the political process distinguished interwar Australia both from Europe where electoral participation was often low in the new democracies of the 1920s and the United States where the weak party system and divided government structure discouraged turnout particularly in the south.

Table 1: Percentage of days Labor in government 1 January 1910 to 31 December 1940

<table>
<thead>
<tr>
<th>NSW</th>
<th>Victoria</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Western Australia</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>38.5</td>
<td>13.9</td>
<td>72.6</td>
<td>32.1</td>
<td>59.7</td>
<td>42.6</td>
</tr>
</tbody>
</table>

4. Source material:

This paper draws on two databases of public finance. In 1975 Andrew Podger completed a database of Australian government social expenditure from 1901 divided into 40 categories. In 1985-86 Alan Barnard published a series of papers that summarised Australian public finances from the first available records up until the early 1980s. These papers were part of the project that had earlier resulted in *Government and Capitalism*. Where possible Podger advised figures for capital as well as recurrent expenditure but for most years and expenditure items he was only
able to provide recurrent expenditure. Barnard amalgamated all capital and recurrent social expenditure into one category to enable comparison with other broad headings of public expenditure. Barnard’s definition of total social expenditure is slightly broader than that of Podger.\textsuperscript{27}

For the period under analysis Barnard relied on the Commonwealth Bureau of Census & Statistics’ (CBCS) \textit{Finance Bulletins}, Podger also employed these but after 1933 relied on the compilation of state finances in the reports of the Commonwealth Grants Commission (CGC). There are a few curious year-to-year fluctuations in Podger’s figures for the 1930s but a check of state government publications confirms that these were the data advised by the states.

In most cases I have expressed taxation and expenditure in 1911 prices based on a combination of the all-states ‘A’ and ‘C’ price indexes of the Commonwealth Bureau of Census and Statistics.\textsuperscript{28} Per capita figures are based on the most recent Australian Bureau of Statistics estimates of state populations.\textsuperscript{29}

5. Overall patterns of recurrent expenditure:

In this section I rely on Podger’s figures for recurrent expenditure I exclude capital expenditure because he is only occasionally able to identify this. Over these thirty years per capita levels of Australian social expenditure in 1911 prices rose from £1.32 in 1911 to £4.06 in 1940, an increase of 208% substantially more than Butlin’s estimate for GDP growth in 1911-39 of 48%. This was an aspect of the general growth in public expenditure from the 1850s.\textsuperscript{30}

The area of public expenditure, which increased most rapidly, was direct income support, such as pensions, particularly from the Commonwealth. State government welfare expenditure remained low until the introduction of child endowment and widows’ pensions in NSW in 1927 and then the upsurge in unemployment relief payments in the early 1930s.
Another way of looking at public expenditure is to distinguish programs by client group and adopt the terminology of Theda Skocpol and Marilyn Lake by distinguishing a maternalist and a soldiers' welfare state. In the maternalist category I include child endowment, widows' pensions and the maternity bonus and the very small direct expenditure on women's and children health for the few years in which Podger was able to identify it separately. Repatriation was overwhelmingly a federal government responsibility. Whatever tentative steps Australia was making towards a maternalist welfare state after the maternity bonus of 1912 were swamped by the rise of a soldiers' welfare state. The upsurge in maternalist expenditure from the 1920s was due to the introduction of child endowment and widows' pensions by a Labor government in NSW. Falling incomes during the Depression then rendered many more families eligible for child endowment and led to a major blow-out in expenditure.
Chart 2:

4. Comparing the states:

In this section I draw on Podger's database to explore the divergent patterns of social expenditure in the states. Here, unlike in the previous section, I have excluded on unemployment relief. From the late 1920s it is very difficult to distinguish normal public works from those undertaken for unemployment relief purposes. Once the immediate fiscal crisis of the early 1930s was past governments reduced direct unemployment relief (paid from recurrent expenditure) in favour of relief works financed by loan expenditure. In part these programs substituted for the public works programs of the 1920s which had paid award wages.\textsuperscript{32} An accurate determination of how generous governments were towards the unemployed would thus require a careful comparison of public works expenditure from the 1920s to the 1930s.

Another difficulty is the likely higher per capita cost of the provision of social services in states with a more dispersed population. From 1937 the Commonwealth Grants Commission introduced 3% allowances for SA and Tasmania and 7% for WA.\textsuperscript{33} These were increased further in the post-war period, but for this paper I have
adjusted South Australian, West Australian and Tasmanian expenditure downward by the 1937 percentages to provide a more accurate representation of their commitment to social expenditure.

Estimates of the size of the state economies are fairly primitive for this period but there was clearly a tendency towards convergence between the states. In 1909 the CBCS estimated that the per capita value of output in Western Australia was 49% above the national average, but in 1940 the most prosperous state was Queensland with a per capita value of output only 3% above the national average. However this convergence was never as complete as some had optimistically predicted before Federation.14

Chart 3

Adjusted per capita social expenditure 1911-40 (1911 £)

After only ten years of federation there were still significant divergences between the states in social expenditure. Western Australia's high rating suggests that perhaps 3%
was an inadequate allowance for dispersed population, but the economic boom generated by the gold industry would also have enabled higher levels of expenditure. There are three notable periods of upheaval, first the post-war inflationary boom that increased wage costs (and which then maintained at this higher level by industrial arbitration) combined with the influenza epidemic, then the emergence of NSW as a social policy leader in the late 1920s shortly followed by the upheavals of the Depression. The high level of expenditure in NSW was also due to higher wage costs, due to a due to a shorter working week and union-friendly reforms to the state arbitration system. In 1933-34 the CGC found that average male public service clerical in NSW were about 20% higher than the all states average.

Over these thirty years there was only a slight tendency towards convergence between the states in social expenditure. Economic stability encouraged convergence but the states responded quite differently to the crisis of the 1930s. One might have expected more convergence in social expenditure, given the economic convergence between the states, and the redistributive role of direct Commonwealth grants particularly after the inauguration of the Commonwealth Grants Commission.

Chart 4:
A clearer comparison is available if we consider how the relativities between the states changed from 1911. The leading position of NSW remains apparent but it is apparent how Tasmania also advanced relative to its 1911 position along with South Australia. The laggard performance of Victoria remains notable although WA also lost ground relative to other states, as its economic boom ebbed. The depression of the 1890s had hit Victoria especially hard and constrained its level of social expenditure, so that at Federation it lagged behind most other states, but post-Federation Victorian governments did not seek to make up lost ground.37

Chart 5:

Adjusted Per Capita Social Expenditure 1911-40 (1911=1)

In large part the history of state social expenditure is a story of NSW and Victorian exceptionalism. NSW exceptionalism emerges with the first Premiership of Jack Lang in 1925-27. NSW Labor was distinctively more radical than Labor in other states.
The distinctiveness of NSW and Victoria was noted by contemporary observers from the 1920s and led to the CGC excluding NSW from its standard of comparison until 1937. Apart from NSW exceptionalism the specific impact of Labor governments, may be most apparent in short-term responses to economic crisis. In the early 1930s state Labor governments in NSW, South Australia and Victoria presided over expenditure increase and their conservative successors strove with success to reverse this trend. In the other states Labor governments came to power from 1932 onwards and presided over expenditure increases. In their analysis of public expenditure patterns in the Australian states during the 1970s and 1980s Harvey and Moon came to a similar conclusion: that partisan change did make an impact in the short-term.

The levels of political competitiveness in the states may have influenced patterns of social expenditure. There is some evidence from the American states in the interwar period that higher levels of political competitiveness tended to be associated with higher levels of public expenditure. Peter Lindert found a statistically significant relation between frequency of executive turnover and levels of public expenditure in a comparison of thirty countries over the period 1880-1930. The nation that demonstrated the most rapid increase in social expenditure during the 1920s was Weimar Germany as governments beleaguered by coup attempts from the left and right sought to buy support. In this period NSW was the most politically unstable state and Queensland the least.
Table 2: Changes of government 1911-40.

<table>
<thead>
<tr>
<th></th>
<th>NSW</th>
<th>Victoria</th>
<th>Queensland</th>
<th>South Australia</th>
<th>Western Australia</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>All changes of</td>
<td>10</td>
<td>8</td>
<td>4</td>
<td>8</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes resulting</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>from general</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>elections</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. Taxation:

Australian Labor was slow to develop a distinctive position on taxation. The Australian colonies relied heavily on customs revenues and land sales. The first proposals for the introduction of income tax long predated Labor's emergence as a political force but income taxes were not introduced until the 1890s. The state where Labor was most directly associated with the introduction of income tax was NSW. There Labor supported George Reid's free-trade government, which introduced a state income tax in 1894. However the introduction of income tax was Reid's priority, not Labor's, and the 1892 NSW Labor platform made no reference to taxation. Instead it pledged support for measures to 'secure for the wage-earner a fair and equitable return for his or her labour'.

European socialists shared Labor's early indifference towards taxation. In 1899 Karl Kautsky argued that in a socialist society public revenues would be drawn from the surplus generated by nationalised industries. In both Europe and Australia however the entry to government of social democratic parties towards government led to a shift in their approach towards taxation. By the early 1920s Kautsky argued that in the
period of transition towards socialism there would be a role for direct taxation to
finance public services such as education. He contrasted this taxation policy, which
would tax surplus value in the hands of the wealthy with the reliance of capitalist
governments on indirect taxation, which depressed wages below the value of labour-
power. Australian Labor politicians occasionally evoked the image of a self-financing
public sector but in practice they were driven to rely on taxation as a source of
revenue. Indeed Labor’s sympathy for public employee interests made this even
more likely as it contributed to declining public enterprise profits. In the 1920s state
enterprise receipts, particularly for railways, fell markedly due to wage increases, road
transport competition and uneconomic developmental lines. By 1933 only Victorian
tramways made a positive contribution to state government revenue. Only
authoritarian governments of the left or right have been able to rely on state enterprise
surpluses, as significant contributor to revenue and even in the Soviet Union taxation
remained a major source of government revenue.

As Labor governments confronted the need for income tax they adopted the rhetoric
of equity. The most substantive exposition of Labor taxation policy came from
Queensland railways minister James Larcombe. He defended the principle of ‘ability
to pay’ and argued that in practice this meant steeply progressive tax rates and
exclusion of as many wage-earners as possible from income tax. The policies of the
first generation of Labor governments were consistent with this approach: they
increased thresholds, established higher thresholds for the heads of families and
introduced steeply gradated tax schedules.

However the extent to which ‘ability to pay’ functions as an effective means of
income redistribution depends on how much has to be paid. The ultra-rich are a small
minority and very high tax rates on them will not raise much revenue. Such taxes are
a form of political symbolism however that may play well to a populist audience. A
commentator in the Round Table suggested that the even distribution of wealth in
Australia meant that Labor governments had to be cautious on taxation, although he
suggested that Lang was an exception from this evaluation.

By the 1930s it was clear that the structure of income tax rates was most progressive
in Queensland, but by then the fiscal crisis of the Depression had put paid to Labor’s
effort to exempt workers from taxation. In the early 1930s all states increased income or established special unemployment relief taxes that drew most wage earners into the income tax net for the first time and which employed methods of deduction at source.  

Table 1:

<table>
<thead>
<tr>
<th>Annual tax payable on personal exertion income, 1934</th>
<th>£</th>
<th>NSW</th>
<th>Vic</th>
<th>Qld</th>
<th>SA</th>
<th>WA</th>
<th>Tas</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td></td>
<td>0</td>
<td>0.1</td>
<td>1.2</td>
<td>0</td>
<td>0.8</td>
<td>1.7</td>
</tr>
<tr>
<td>150</td>
<td></td>
<td>5.5</td>
<td>2.1</td>
<td>3.7</td>
<td>2</td>
<td>1.6</td>
<td>2.9</td>
</tr>
<tr>
<td>200</td>
<td></td>
<td>7.5</td>
<td>2.9</td>
<td>5.4</td>
<td>5.4</td>
<td>4.3</td>
<td>4</td>
</tr>
<tr>
<td>250</td>
<td></td>
<td>9.8</td>
<td>4.6</td>
<td>10</td>
<td>9.7</td>
<td>6.3</td>
<td>5.7</td>
</tr>
<tr>
<td>300</td>
<td></td>
<td>12.4</td>
<td>6.1</td>
<td>12.8</td>
<td>14.5</td>
<td>8.3</td>
<td>7.5</td>
</tr>
<tr>
<td>400</td>
<td></td>
<td>19</td>
<td>10</td>
<td>19</td>
<td>24</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>500</td>
<td></td>
<td>26</td>
<td>15</td>
<td>33</td>
<td>34</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>700</td>
<td></td>
<td>43</td>
<td>32</td>
<td>57</td>
<td>59</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>1000</td>
<td></td>
<td>70</td>
<td>60</td>
<td>117</td>
<td>91</td>
<td>56</td>
<td>54</td>
</tr>
</tbody>
</table>


All the states tended to increase their reliance on income tax over this period, but Queensland generally relied most on income tax.
Over time tax levels converged more than social expenditure as the shift of financial power to the Commonwealth from 1910 forced the states to increase taxation. By 1940 Labor-dominated Queensland and conservative Victoria had emerged as the two extremes. In the early to mid 1930s however Queensland had been surpassed by NSW and South Australia, in the former governments struggled to finance Labor's social program while South Australia's budget was particularly hard hit by the crisis of the wheat industry.
Chart 7:

Across the states relative to their 1911 level it was NSW that showed the largest relative increase in taxation:
The need for the outlying states to rely on taxation to finance social expenditure was diminished by the increasing role of Commonwealth grants to the states. In 1940 7.7% of South Australia total revenue, 17.5% of Western Australian total revenue and 17.4% of Tasmanian total revenue was made up of Commonwealth grants.53 However the severity of taxation in Tasmania had already more than doubled from 1901 to 1910. By 1910 Tasmania had already done much of the work of catching up with the mainland.54 Commonwealth grants generally contributed towards an equalisation of the resources available to state governments.
Chart 9:

The increasing role of Commonwealth grants meant that the total resources available to state governments were more than state taxation alone. One might have expected the inauguration of the CGC to facilitate greater policy diversity across the states. In practice however both state taxation levels and the total of taxation and grants converged in the late 1930s more than ever before.
The pattern of a relation between Labor governments and levels of taxation is stronger than between Labor governments and social expenditure, and this is particularly apparent if we adjust state taxation to take account of the different taxable capacities of the states:
Table 4:

| 1911-38 Labor governments and per capita taxation (adjusted for taxable capacity) |
|---------------------------------|----------------|----------------|
| %Labor                          | Increase in state taxation (%) | Increase state taxation and grants (%) |
| NSW                             | 43             | 578            | 177            |
| Vic                             | 15             | 178            | 72             |
| Qld                             | 80             | 568            | 250            |
| SA                              | 36             | 256            | 167            |
| WA                              | 57             | 389            | 118            |
| Tas                             | 38             | 600            | 313            |

The two states that deviate from the correspondence between Labor governments and higher state taxation are NSW and Tasmania. In the case of NSW this demonstrated the political distinctiveness of the NSW ALP, and in Tasmania federation encouraged the state to bring its service levels up to the level of the mainland with the consequent need to increase taxation. When Commonwealth grants are included NSW is brought back to the pack and Tasmania is revealed to be the state that strove most aggressively to increase its revenue base.

The pattern of state taxation was overlaid by the redistributive role of federal finance. Access to federal grants increased the per capita funds that were available to SA, WA and Tasmania. Labor governments did not have to go down the Queensland road of high taxation, except in Tasmania. The core states had to make more difficult political choices, Victoria opted for the low revenue and expenditure road, Queensland Labor increased taxation and was able to carry the political cost in the 1930s, but in NSW Labor governments tended to spend first, establishing a constituency for social programs, and then force their successor conservative governments to tax later. Conservative governments in NSW had to substantially increase taxation in 1927-28 and 1932-33 despite the complaints of many of their supporters and imposed a heavier burden on the wealthy than in Victoria. However in 1930 NSW Labor back in office also found that it could only finance continuation of its social programs by
extending the reach of income taxation to wage earners and despite grumbling from many Labor supporters it secured trade union acquiescence by the promise of favourable industrial legislation.58

6. Types of expenditure:

The model of labourism proposed by Castles suggests that Labor governments would focus their expenditure on public works to generate jobs for male manual workers and that their taxation policy would strive to exclude manual workers from taxation. By the 1930s however state Labor governments had moved away from this model towards a more social democratic position that implied a broader tax base and a commitment to social expenditure. There were however divergences between the states as to how far they went down this road.

In the case of social expenditure its significance increased in all of the states, but a division does emerge between what a later generation would call core and peripheral states. Particularly from the late 1920s Tasmania, NSW and Victoria stood out as devoting more resources to social expenditures. NSW and Victoria were distinctive in their levels of taxation, and hence the size of their public sector, but they did allocate similar shares of public expenditure to social programs. Here I would qualify Barnard's argument that from the 1920s the dynamic element of public expenditure shifted towards social expenditure, NSW accounted for much of this shift in aggregate terms and the states differed in their commitment to social expenditure.59
Public works expenditure was largely financed through borrowing. One would expect then that a labourist state would be characterised by high levels of public sector debt. Tasmania’s very high debt level perhaps reflected its struggle to catch up with the mainland that also led it to impose high levels of taxation. The rise in NSW debt charges from the late 1920s was a response to the ambitious public works program initiated by the first Lang government. One reason for the severity of the NSW fiscal crisis in the early 1930s was Lang’s attempt to run both a social democratic agenda with a focus on the extension of government benefits and a traditional
developmentalist appeal to loan finance. The high levels of debt in Queensland, where Labor was elector ally hegemonic, however count against the theory that political competitiveness encourages debt finance as governments of one party bequeath their budgetary problems to their successor.  

Chart 12

\[\text{Debt Charges as Percentage of Total Expenditure (Revenue & Capital) 1911-40}\]

Conclusion:

Despite the increasing dominance of the Commonwealth government in these thirty the Australian states remained distinctive in their financial policies. Convergence was limited and much of it was accounted for by Tasmania’s struggle to bring its nineteenth century economy into the twentieth century. There was not one uniform pattern of fiscal sociology across the states. Victoria remained committed to its low taxation and low expenditure model but the approaches of Labor governments varied. Politically hegemonic Queensland Labor was able to implement a high taxation strategy whereas NSW Labor, once Lang had emerged as the dominant figure in the party, tended to
prioritise expenditure. For nearly all of the 1930s NSW and Queensland led in per capita social expenditure. This reflected not only Lang's personal style but the strength of radical elements in the NSW labour movement together with the influence and political skills of Labor feminists such as Kate Dwyer who campaigned for a maternalist welfare state. The distinctiveness of NSW suggests that the presence of Labor governments alone is an imperfect indicator of working-class political power, NSW Labor lagged behind Queensland, but at the level of industrial militancy it led the nation. Rudolf Goldscheid argued that ‘the budget is the skeleton of the state stripped of all misleading ideologies’. The recent trend of Australian political history has been to focus on popular ideology, in the form of political culture, but if we are to understand what labourism meant in practice we need to focus on how Labor governed and the outputs of public policy.

16 P. A. Harris, Metamorphoses of the Australasian Income Tax: 1866 to 1922, Australian Tax Research Foundation Research Study No. 37, 2002 [no place of publication], pp. 17, 45, 63, 130, 141.
The papers were produced as Australian National University Source Papers in Economic History: Preliminary Statistics of N.S.W. Government Finances, 1850-1982 (No. 8, December 1985); State and Local Government Finances in Queensland, 1859-1982 (No. 9, December 1985); Tasmanian Government Finances, 1953 to 1982: A Statistical Survey (No. 14, December 1986); Finances of Western Australian Governments, 1851-1982 (No. 16, December 1986); The South Australian Budgetary Record 1850-1982 (No. 10, December 1985); Victoria’s Fisc, State and Local: Preliminary Statistics (No. 15, December 1986).

The major item included in Barnard’s definition of social expenditure that was not included by Podger is libraries, art galleries and research.


Barnard, Australian Government Finances, p. 42.

CGC, Second Report, p. 149.

Mendelsohn, Condition of the People, p. 94.


This is not counting as a change of government the replacement of the Peacock Liberal ministry after the 1917 election by Nationalists who had been known as the ‘Economy Party’, but I do count the minority Labor governments formed after the 1924, 1927 and 1929 elections. Information on changes of government is from: C. Hughes & B. D. Graham, A Handbook of Australian Government and Politics 1890-1964, Australian National University Press, Canberra, 1968.

Data on taxation in this section is derived from Barnard’s work.


60 There are gaps in the series for 1917, 1918 and 1920.

There are gaps in the series for 1917, 1918 and 1920.