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TASMANIAN LABOR LEADER

Horizontal Fiscal Equalisation Inquiry
Productivity Commission
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I write to make a submission to the Productivity Commission's review of Horizontal Fiscal Equalisation (HFE).

HFE has been described as the glue that holds the Federation together.

The model is based on the fundamental belief that all Australians should have access to the same level of basic services, regardless of where they choose to live.

Tasmania is currently a net beneficiary of the GST in recognition of our smaller, dispersed population, geographical isolation and relative demographic disadvantage.

It is a matter of great concern that a move away from HFE to a per capita distribution system could see Tasmania lose more than \$1 billion a year.

Any cut to Tasmania's share of the GST would critically undermine our ability to fund essential services like health and education.

At a time when Tasmania is already struggling to fund essential services like health and education, any further loss of revenue would have a direct and unacceptable impact on the Tasmanian people.

It is Tasmanian Labor's firm view that, despite ongoing political noise, no compelling evidence has been presented for change to the GST distribution system.

The most recent comprehensive review of GST distribution conducted in 2012 by Bruce Carter, John Brumby, and Nick Greiner did not recommend any fundamental changes to HFE.

The previous Tasmanian Labor Government's submission to the GST Distribution Review clearly and compellingly argued that HFE does not act as a disincentive to economic reform.

This argument has again been well framed in the discussion paper Horizontal Fiscal Equalisation: an equitable approach to GST distribution prepared by the Tasmanian Treasury which states:

“An examination of Tasmania’s track record demonstrates that it has been successful in implementing economic reform, despite fiscal equalisation being of central importance. Examples of this include Tasmania’s commitment to implementing the National Competition Policy reforms in the period from 1997 to 2005, included wide ranging reforms to the electricity sector, reforms to water pricing, governance arrangements related to the commercial activities of Government businesses and implementing competitive neutrality policies. There has also been a range of regulatory reforms including the more difficult areas such as shop trading hours in 2002 and the taxi industry in 2003.”

Together with Victoria, Tasmania was the first state to meet its targets to abolish inefficient state taxes as part of the 1999 Intergovernmental Agreement on Federal State Financial Relations.

Some states, including NSW are still yet to abolish state taxes agreed under the IGA.

Tasmania was also one of the first States to develop harmonised payroll tax arrangements.

All of these reforms occurred during the period of the previous Tasmanian Labor Government.

The 2012 GST Distribution Review found:

“Ultimately, there is no hard evidence on whether GST share effects influence State tax reform decisions. The Panel doubts that GST share effects are a very powerful factor when States are considering tax reform.”

Western Australia has been one of the loudest proponents for change to HFE.

The arguments put forward by WA in recent years inexplicably ignore the fact that in the early 2000s Western Australia was a net beneficiary of the GST.

WA’s relativities are forecast to increase significantly in coming years as the effects of the mining boom wash through the economy. That is a sign that the system is working as it was intended.

As previously above, a move to a per capita distribution system favoured by WA would disadvantage Tasmania to the tune of more than \$1 billion a year.

Similarly the ill-founded proposal to set a floor under GST relativities, primarily to benefit Western Australia and other larger states, would inevitably and unsustainably undermine the GST share of the smaller states.

Tasmanian Labor has significant concerns about any model that could see our share of GST decreased and replaced with other forms of Federal Government grants.

An increase in tied grants, for example, would reduce Tasmania's Budget flexibility and our ability to provide critical services in health, education and public safety that Tasmanians expect and deserve.

Such arrangements would increase budget uncertainty and stability as they could be unilaterally reduced or altered by the Commonwealth at any time.

In summary, it is the clear and unwavering view of the Tasmanian Labor Opposition that the case for changing the GST distribution system has not been made.

There is bipartisanship with the Tasmanian Liberal Government that there should be no change to HFE.

I know the Productivity Commission will look past the politics of this issue and focus on the facts and evidence.

HFE has served the Federation well for decades and on the balance of evidence, I firmly believe it is the most appropriate and equitable system to continue to distribute our great nation's wealth into the future.

Kind regards

Rebecca White MP
Tasmanian Labor Leader
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