

Submission to the Australian Government Productivity Commission

From the office of Western Australian Senator Peter Georgiou

For public hearings in Brisbane on Monday 5th February 2018.

Scheduled time 12pm – 12.30pm

By Sean Butler

I make this submission representing:

Western Australian One Nation Senator Peter Georgiou.

The lack of structural reform of the GST is the single most important issue facing Western Australia at present.

This is not about putting one State against the other or an “us or them” argument... it’s about:

- Fairness
- Economic efficiency
- What’s best for the Nation as a whole
- Encouraging the other States to develop their own resources

Western Australia only receives 34c for every dollar of GST it collects. Other States get between 89c and \$1.81. The lowest any other states share has dropped to is 84c, Victoria in 1994

The Productivity Commission draft report released last October concluded that the current system is “under significant strain as Western Australia’s share of the GST has fallen to an extreme low”. Extreme to the extent that:

- Western Australians get just \$878 per capita
- Compared to the average of \$2,553.
- South Australians get \$3,671,
- Tasmanians \$4,601 and
- The people of the NT get \$11,881.

Under proposals from the Productivity Commission the current system whereby GST money is redistributed to elevate every state to the level of the strongest state should be dumped. Instead either an average level or the second strongest state level would be the benchmark.

Under the average formula proposal Western Australia stands to gain an **extra \$3.2bn per year**.

Under the second strongest State level WA would get an **extra \$3.6bn per year**

There is a lot is at stake here.

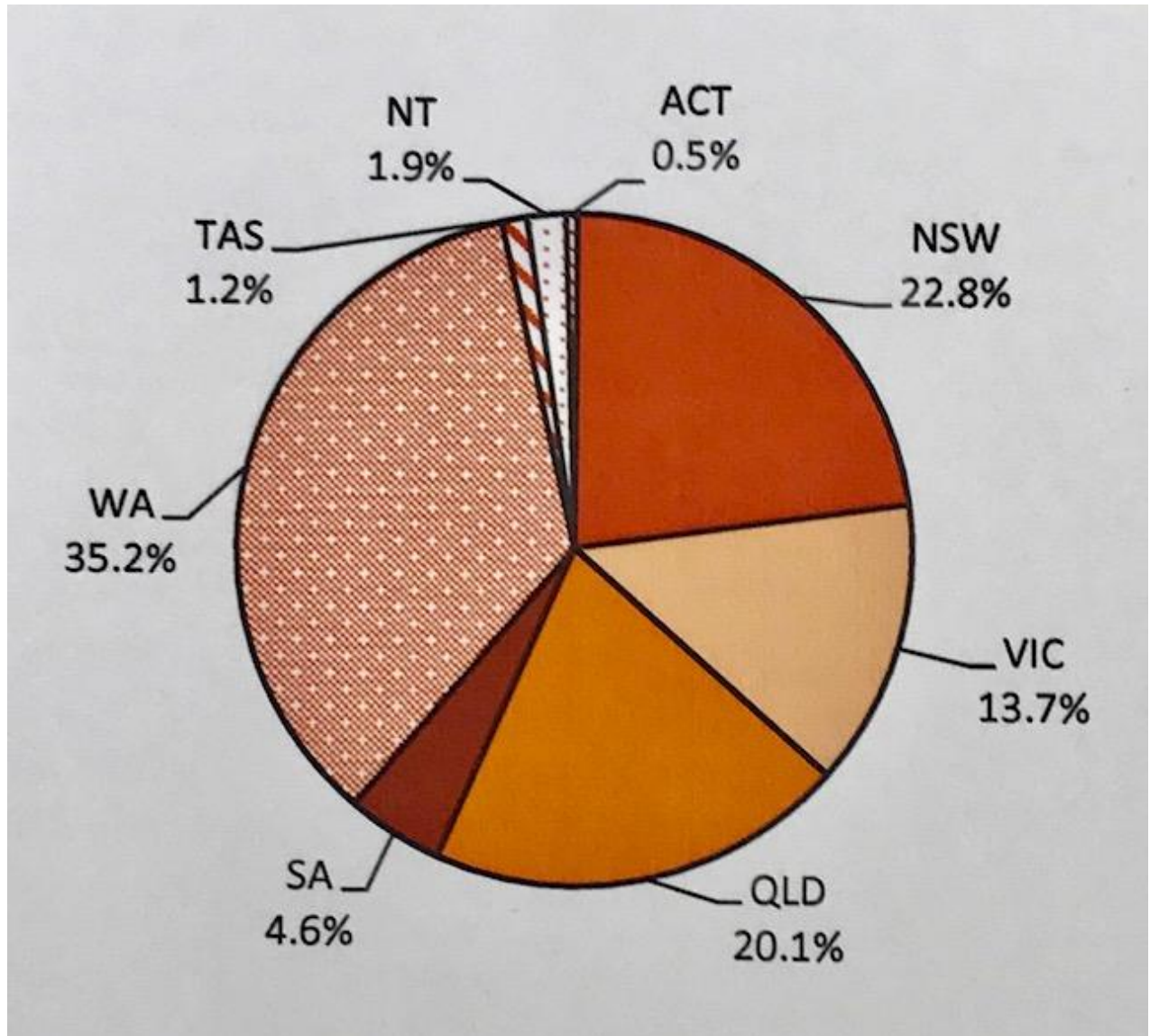
Some other States have argued that this is unfair.... but these proposals would still leave WA subsidising the other states. Its needs to be understood that if several other States had a small percentage cut in their subsidy from WA it would translate into a significant gain for WA compared to the current very low share that WA gets now. This is an argument about fairness and good economic policy, it's not about us versus them and WA is not looking for subsidies, just fairness!!

It's ironic that Western Australia which has had progressive economic policies and contributes 35% of Australia's exports, more than any other State, is now being punished for its success. Our share of the GST collected has fallen from 95c in the dollar in 2007 to just 34c in 2017. Our State Government whether Liberal or Labor are now under financial strain to the extent that the State has lost its Triple A credit rating and has had to cut back on core services and go into debt. Meanwhile New South Wales which receives almost three times our per capita distribution is in surplus and has so much money that they can afford to bulldoze the 18 year old Sydney Olympics stadium and rebuild it. What an extravagance!

The current HFE system which operates in an extreme fashion is not adopted to this extent anywhere else in the world. It embodies the socialist ideal of redistribution of wealth to the extreme extent of trying to make everyone equal. Nothing kills human enterprise faster than that

Western Australia's exports provide the income needed to fund eastern states imports:

Exports by States 2016-17



Give Western Australia a fair share of what we earn. The result will be further investment and greater development and the nation as a whole will be better off.

WHAT OTHERS SAY:

Last year **CommSecs** state of the States report showed WA to be the lowest of all States. This is an unbelievable situation considering the State is by far the leader in export earnings. NSW was top spot, Tasmania fourth. WA rated below the national average on ALL EIGHT indicators and trailed the Nation in terms of Economic Growth and Construction work. Meanwhile there is a construction boom on Eastern states powered largely by the flow on effects of huge GST grants from Western Australia; this is simply not sustainable economically or politically.

The **Chamber of minerals and Energy** claim that the big iron ore miners pay \$19 per tonne in taxes and royalties. Of this it's been reported:

\$12.65 goes to Federal Company taxes.

\$5.12 is effectively redistributed away under the GST formula

JUST \$1.23 Stays in WA

Under the current arrangements a State that encourages mining and development, let's say Western Australia, will find the benefits of the additional royalty revenue short lived. After a few years the gain in royalty income is effectively distributed away to other states. So WA is effectively no better off after funding the costs of investment in infrastructure for these projects as well as having had the associated labour shortages and cost pressures as a result of the investments.

It's been reported that over the years of resource development Western Australia has had to build extra infrastructure equivalent to that of the entire state of Tasmania. The State government has had to fund extra roads and freeways, ports, hospitals and schools as a result of the economic growth due to the development of our resources. Both Labor and Liberal State governments are in positions where it's impossible to balance the State budget with billions of dollars being diverted out of the State. The State government in Western Australia is now in a position where it has to cut back on core services even though the state as a whole provides the largest portion of Australia's

export income. No matter how you look at it this system is unfair and is NOT in the nation's interest.

Under the current system States do not need to strengthen their own natural resource industries because they know they can sit back and wait for the GST redistribution to bring them up to the leading states capacity every year. If New South Wales and Victoria developed their onshore gas sectors they could create billion dollar industries and inject millions into their own State government revenues. ⁽⁴³⁾ Imagine if states like Queensland were allowed to build dams to irrigate inland areas or further develop their natural resources how much extra revenue would be generated.

Under the current unfair system we have effectively removed the incentive for States to develop all their resource industries and the nation as a whole suffers.

There needs to be bipartisan support for change.

BHP has said that changing the current system to allow WA to keep a greater share of the revenue generated in the State would benefit jobs and further investment in resource industries and regional communities. The head of BHP Mike Henry has been quoted as saying "Reform would not only be good for WA, it would be in the national economic interest.

Research by the **Federal Parliamentary Library** shows the annual carve-up of the GST has not only hit the WA State budget but also its jobs market. Since 2001 WA has lost a staggering \$41.5 BILLION to other states and territories when compared with a per capita GST allocation. According to the library, about 35% of that or \$15.5 billion would have been spent on job-creating infrastructure. That could have generated 32,000 full time jobs. ⁽⁴⁷⁾ What a wasted opportunity!!!

While Western Australia has been building one of the worlds showpiece mining industries the benefits of it have been redistributed to those who have done

none of the work. Victoria which has been rapidly shutting down its mining industry has been the biggest beneficiary reaping \$18bn.

The Western Australian Chamber of Commerce and Industry has argued that Australia's GST system should be one that encourages every state to develop their own economy and pursue tax reforms that stimulate growth and increase the size of the GST pie, benefiting every Australian. Every State should be encouraged to stand on its own two feet and that if changes are not made the national economy will suffer as a result.

The Institute of Public affairs in a research paper released in November 2017 stated that "There is no justifiable rationale for jurisdictional equalisation" and "Equalisation negatively distorts incentives in several ways:

- It reduces the incentive for mobile factors of production (such as labour and capital) to move to higher productivity locations there by imposing efficiency costs on the national economy; and
- It incentives State Governments to avoid important economic policy reforms and can encourage net-recipient states to develop a dependency on the Commonwealth"

If the WA Government has its finances strangled any further the state won't be able to provide the infrastructure and services for the next boom and the whole country will suffer. Is this what we want?

Saul Eastlake Submission DR71

Saul may well be a respected economist but his views differ from the findings and views of many other Economists:

He states in relation to proposals to equalise incomes to the second strongest state or average: (Page 4 of his submission DR71)

“It is difficult to think of any valid reason why one state should be thus advantaged – especially considering that its superior fiscal capacity is **largely the result of luck** (that is, having been endowed with a uniquely rich resources base, the value of which has been greatly enhanced by increased demand for those resources from the world’s most populous nation), rather than as a consequence of policy decisions made by that state in the past.”

This statement is an insult to all Western Australians. Western Australia’s superior fiscal capacity is NOT the result of luck, it’s the result of forward thinking policies by successive state governments, Premiers including Charles Court, Geoff Gallop, Colin Barnett and entrepreneurial business people like Lang Hancock, Andrew Forrest and Gina Rinehart to mention a few.

Other States have huge untapped natural resources which for political reasons are not being developed. If other States want to lock up their resources and have less progressive policies that’s their choice but they should not then come begging for help from Australia’s most progressive state.

Other Economists:

Independent International academic studies from some of the world’s top universities indicate that revenue transfer systems like the current GST distribution model are **not in the Nation’s best interest**.

I quote from a paper from
London School of Economics and Political Science & Stanford University
The Fiscal Interest Approach: The Design of Tax and Transfer Systems:

Extracts:

“Effect on promoting growth and development:

Transfers to subnational governments (such as State Governments) are typically set by a formula that comprises a series of weights for different criteria, including economic and demographic characteristics, such as income and population. (MUCH LIKE THE CURRENT AUSTRALIAN HFE) However, the attempt to correct horizontal imbalances by allocating more transfers to poorer regions often means that these transfer systems exhibit poor

responsiveness to localities that foster local economic growth, and sometimes can even produce completely perverse incentives.”

And:

“Fiscal systems that allow growing regions to capture a major portion of new revenue generated by economic growth provide far stronger incentives for local governments to foster local economic growth.”

And:

“Reliance on... external unearned resources robs subnational (or State) governments of the motivation to engage with its residents in order to find out how to help them to produce wealth. Reliance on transfers also **dampens the impulse** to be innovative in pursuing strategies that create growth..... and to use resources more efficiently and effectively.”

The conclusions drawn above indicate that Australia’s current system of HFE may well be adding to the imbalances between the States Economic outcomes and acting as an impediment to economic growth. This is not in the National interest, as a Nation we would be better off rewarding the more productive States and allowing the free market to determine where capital and resources are allocated.

We must get to a point where the distribution of the GST encourages governments to develop their own resources and economies rather than subsidising those that don’t.

What are our politicians doing?

Where do the Western Australian politician’s true allegiances lie? Is it with the people of Western Australia who elected them and for whom they are supposed to represent or is it with their Liberal and Labor Colleagues in other States?

LIBERAL:

The Federal Treasurer Scott Morrison has dismissed the WA Labor Governments submission to the Productivity Commission Review proposing a per capita basis for GST distribution, a formula backed by the previous Liberal State government

Morrison has stated “Like our welfare system HFE provided a safety net for all Australians regardless of where they live” HOWEVER Australia currently adopts an approach that no other country in the world does. **It’s not a safety net for poorer states but close to full equalisation and almost communist in its nature taking away incentive for growth.**

WA is well represented in the Liberal Federal cabinet with Julie Bishop, Mathias Cormann, Christian Porter and Michaelia Cash to name a few but where are there calls from these politicians for changes that benefit their State or indeed the nation as a whole?

At Senate estimates hearings last year only two of the States 12 Senators turned up to argue for the State, they were Liberals Dean Smith and One Nation Senator Peter Georgiou. As it turns out it appears the Liberals won’t back fairness as doing so would mean some Eastern states would get less. (But in the long run more).

LABOR:

Shadow Labor Treasurer Chris Bowen has said that the ALP would not back the draft proposals of the Productivity Commission. Labour has argued that they “seek an outcome to this situation, but one that doesn’t negatively impact on other States and territories”. The simple fact is that it’s impossible to make the system fairer without removing some of the grossly inefficient subsidies that some other states get. While in the short term there will be a small negative impact on other States; that impact won’t be nearly as bad as what WA is sustaining now. In the longer term all states will benefit if changes are made that encourage economic growth.

VICTORIA:

Victoria's treasurer has been reported saying "Victoria would not support any change that rewarded WA's poor budget management" **If Western Australia has such poor management then how come it is expected to subsidise the rest of the country to the tune of \$3.6bn a year!** If the government of Western Australia had the benefit of subsidisation from the other States to the same extent as it subsidises the other States then Western Australia wouldn't have budget problems!! How can any government operate when it's expected to fund infrastructure and economic development and then be taxed as a result of the economic success to such an extent that it has to go into debt just to provide core services. This is an argument about fairness.

Victoria has vast reserves of low cost gas that it is not developing. ⁽⁶²⁾ The Victorian Government has a ban on the development of these gas fields partly because of concerns over fracking but they will not even investigate to see if there are environmental issues if these gas fields are developed. If Victoria lost some of its GST subsidy from WA they may find they have "budget management" problems too and start doing some work to provide for their own future!

SOUTH AUSTRALIA:

South Australian premier Jay Weatherall has been reported saying in relation to changing the current GST redistribution model: "It's just not going to happen and I don't think other States or territories are actually interested in doing it". South Australia meanwhile can afford to demolish its coal fired power stations making some businesses unviable with increased power costs and rely on Government subsidised industries and GST grants from Western Australia. Naturally Weatherall thinks the system is "FAIR" his economically laggard State this year receives \$1.44 in every GST dollar compared to the 34c coming to WA.

TASMANIA:

Treasurer Peter Gutwein has been reported saying: "We cannot and will not support a change such as this that would damage Tasmania."

The fact is WA gets 34c in the dollar. Tasmania gets OVER FIVE TIMES AS MUCH being \$1.80.

The only hope we have is to vote in candidates who will argue strongly in the interest of the State and longer term interests of the Nation who they are supposed to represent, not just follow the short sighted Eastern States orientated party lines dictated by Eastern States politics.

SUMMARY

The Western Australian economy is suffering as a result of the current system, billions of dollars are being syphoned out of the state and the State Government now has to cut back on core services including hospitals and schools. Western Australians are justifiably outraged by the current system, there are articles in the media almost daily about it and the general mood is that we are being ripped off and that neither of the two major parties care.

If changes are not made this will lead to further economic stress and greater voter dissatisfaction. New parties are being formed to take up this issue and voters will go for alternatives who offer genuine fair change.

As a nation we should abandon a system that rewards less productive States and their governments for placing a low priority on Economic development and development of their natural resources.

The current distribution formula is broken and it's in our nation's interest to fix it, not just for the good of Western Australia, but for the long term good of all Australia