



**HON REBECCA WHITE MP
TASMANIAN LABOR LEADER**

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Australian Government Productivity Commission

Inquiry into Horizontal Fiscal Equalisation

Thank you for the opportunity to provide comment on the Productivity Commission's (PC) Draft Report (the Draft) on Horizontal Fiscal Equalisation (HFE).

As stated in our previous submission, the Tasmanian Parliamentary Labor Party (Tasmanian Labor) has concerns about any changes to the GST distribution model.

I was pleased to note the comment in the Draft that HFE "does not result in significant distortions to interstate migration or economic growth."

This definitively invalidates one of the most common arguments used to advocate for a change to the GST distribution system.

However, notwithstanding this conclusion, the Draft contemplates changes that would seriously undermine Tasmania's ability to deliver essential services to the community.

Under virtually every scenario modelled in the Draft, Tasmania would stand to lose significant and unsustainable amounts of revenue.

The Tasmanian Government has estimated that over the forward estimates Tasmania would be around \$1 billion worse off.

Critically, Tasmanian Labor does not support the preferred model of equalising GST payments based on the performance of the second strongest state.

I note the comments of the Commonwealth Grants Commission (CGC) that this is in effect a form of per capita distribution that would create one playing field for seven states and a 'strong state premium' for the fiscally strongest state.

I also note the PC's comments about an equal per capita model that includes top-up funding from the Commonwealth Government.

The Draft rightfully concludes any top-up funding would be 'hostage' to the fiscal constraints of the Commonwealth Government and would lead to significant budgetary and economic uncertainty for a state like Tasmania.

The Draft notes that any material change to HFE will lead to significant redistributions of the GST and that timing will be paramount to ensure weaker states like Tasmania are not significantly disadvantaged.

I would submit that timing is largely irrelevant; a \$1 billion cut will have the same devastating effect on Tasmania whether it occurs now or in five year's time, especially in the absence of broader reforms to how services are funded between the states and the Commonwealth.

The debate over changes to HFE has masked the need for a broader national debate about state and federal relations.

Much of the material in the Draft confirms my view that the arguments against HFE are based on perceptions and politics rather than evidence and data.

The loud protestations of Western Australia - a state which was until relatively recently a net beneficiary of HFE - are not reason enough to change a system that has served the Australian Federation well for decades.

The Draft observes that Australia is the only OECD country with a Federal Government that totally eliminates fiscal disparities between states.

That only serves to strengthen the argument to preserve a system, which sets Australia apart from its international counterparts, as one we should seek proudly to retain.

Finally, given the dramatic impact of a change to HFE, it is disappointing that a public hearing has not been scheduled for Tasmania or, indeed, in any state which stands to lose from the Draft's recommendations.

I would respectfully request that you consider holding a public hearing in Tasmania.

Thank you once again for the opportunity to participate in this important inquiry.

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