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Subject: GST Distributions

SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY INTO GST DISTRIBUTION; 12
 MAIN POINTS

1. Basic changes are inevitable. 2. 2000 GST Agreement has unsustainable effects on WA & whole Distribution.
3. Parties with gains/losses from Agreement are: 1. Cwlth. see 8; 2. States see 2; 3. Public-present rigidity & econ. mismgt.
4. C Grants C's HFE equal. is challenged; too difficult for CGC to represent, mainly from Budget stats.: "effort", efficiency, capacity, average, controllable influences etc.
5. CGC's selections of Services/Revenue items designated to be subjected to HFE, are disputed.
6. Basic reform is to separate GST Distribution from the challengeable assessments of subsidies for weaker States.
7. Upon this separation, GST would be distributed on a per capita population basis- generally agreed.
8. Cwlth. gen. rev. payments to States are already substantial (more than double GST); hence reluctance to change.
9. Subsidies to weaker States (to be separated from GST); CGC's use of State Budget data (rather than Gonski-type) being inadequate, there is need for CGC/expert analyses using wider info. for each major subsidy to be subject to HFE equivalent.
10. I would extend HFE wider than the CGC, to ALL Services/Revenue items except for major items of weaker States where apparent deficiencies in Health, Transport etc could be corrected by extra funding.
11. It is the Cwlth. which should fund the subsidies for its own creations: NT & ACT. For SA, Tas & for natural emergencies in Qld & elsewhere, the subsidies should be paid by NSW & Vic on a per capita pop. basis. WA should be exempted from these arrangements for an initial period (as token compensation). There would be periodic reviews of these arrangements.
12. The above would update and correct, but preserve the general thrust of the 2000 Agreement. JP McAuley 15.7.2017

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PRODUCTIVITY COMMISSION INQUIRY INTO GST DISTRIBUTION

SECOND SUBMISSION

1. INTRODUCTION: Basic changes are INEVITABLE because the Cwlth. has instigated Inquiries by both the PC and the CGC, and presumably is unsatisfied by the 2012 Review by Messrs Brumby, Carter & Greiner.

2. The Cwlth./State TAX BARGAIN within the 2000 GST Agreement has had unsustainable effects on WA & thus on the whole GST Distribution.

WA has moved over the past decade from a mild "recipient" to a substantial "donor" position in the annual GST Distributions. In 2016-17 WA is estimated by the CGC to receive only about the same GST (\$2.4 B) as Tas., despite having over 5 times the Tas. population. NT, with only a slight fraction of WA's population, is due to receive \$0.5 B more GST than WA. WA's tenuous position was certainly not remedied over the past 3 years by the ex gratia, successive payments of \$0.5 B, \$0.5 B and \$0.2 B respectively.

WA's record low 30% allocated GST share (relative to share on a per capita population basis), compares unfavourably with the next lowest, (a relatively high) 84% allocation to any State since the GST was introduced in 2000-01. These extraordinary results require justification in case there is mis-judgment and because they have and have had implications for State governance. Basic alternatives must be explored.

3 The parties to the 2000 GST Agreement, ie the Cwlth. and 8 jurisdictions, have strong INTERESTS in it, especially the Cwlth.

The CWLTH. had sacrificed its Sales tax, passed over the annual GST proceeds to the States (the two Territories are included as States herein), accepted that each State would have equal rights when voting on a basic change to the GST, but benefits from assessed subsidies due to weaker States would be paid out of the GST of donor States under HFE principles rather than by the Cwlth.

As part of the inherent tax bargain, the STATES were required to weed out some of their undesirable taxes. They also lost their disparate scales of tax on bank debits, their 6 cents % tax on credits passing through financial institutions, and tax on some other financial security transactions.

The PUBLIC interest also needs to be considered on particular grounds: whether the system imposes excessive RIGIDITY, potentially disempowering the Cwlth. and authorities exercising national economic management; whether the GST in volatile global economic times, could prove to be too inappropriate from the viewpoints of excessive costs of collection, disincentives for consumption expenditure/GDP, unfair social inequity, as well as hindering the countering of inflation/unemployment.

4. The CGC's HFE model is AMBITIOUS and is its OWN version. It states that it aims to reflect "equalisation" of the funding needed for each State to provide a uniform level of designated Services and associated superstructure if each State made comparable effort and with comparable efficiency. The CGC's HFE model also sought to provide equalisation

of designated Revenue, given a State's raising capacity to fund its services/infrastructure, taking account of demographic features and other factors beyond control.

I would take issue with the CGC's capacity to draw meaningful conclusions from its statistics for the above-mentioned terms: uniform/average-State levels, effort, efficiency, capacity, estimating adjustments for factors beyond control; I also later note reservations about the precise items designated by the CGC to be subject to or exempt from HFE.

5. The CGC's HFE model and the selections of the particular Services/Revenue to be equalised is subjective, disputable and complex. Since the results are difficult to be stated and comprehended in simple terms, there is need for more suitable alternatives.

6. The first necessity is to SEPARATE the GST Distribution system from the (disputable) procedures for calculating the subsidies to be paid to the weaker States, preserving the general thrust of the 2000 Agreement as far as possible. The GST Distribution and the Subsidies calculations are two separate subjects. Each jurisdiction tends to retain its donor/recipient status over long decades. Marginal movements can be identified.

7. This separation of the two calculations would mean distributing annual GST aggregate proceeds on a simple PER CAPITA population basis. This is also the choice of the 2012 Review and considered to be of the larger States. Smaller States could need an assurance that a change would not be disadvantageous for them.

8. Additional Cwlth. GENERAL REVENUE subsidy payments to the individual States in 2016-17, aside from the GST of \$59 B, are recorded to total \$57 B in Cwlth. Budget Paper 3, pg 5-6. The latter is made up of these major items: Health \$18 B, Schools \$17 B, National & Specific Partnerships \$20 B, Other general rev. assistance \$2 B. The Cwlth.'s funding assistance on projects within States of a CAPITAL/investment nature, appear to be not aggregated, but spread throughout the Budget Papers. The recent publicised Cwlth. School funding claimed to be fully equalised on a needs basis, is evidence of the complexity and difficulty of achieving statistical representation of concepts similar to those used by the CGC referred to previously, ie of capacity, efficiency, effort, averages.

9. In my opinion, advances in statistical methods over decades have moved away from measuring equalisation/fairness via a HFE-type concept, towards endeavours by expert task forces to measure by more modern analysis. It was this approach which led me in my earlier submission to the PC of 9.6.17, to favour confining the subsidy calculations for the Aust. Federation, only to those fewer Services and Revenue items which qualified by virtue of being COMMON/CORE items on a restricted basis, namely common to most States and aggregating to a majority of the funding for the item. .

10. On reflection, I would now carry this common/core concept further, by fully EXEMPTING from the equalisation process, ALL 100% of REVENUE items, ie not only the 40% designated by CGC as subject to HFE. This would have avoided the situation of the last few years when WA had been up to \$7.7 B pa penalised for excess Revenue. WA was thereby underwriting most of the up to 6.8B subsidies to weaker States, benefitting little from its own contributions towards providing facilities in mining regions, and providing such an important proportion of Australia's exports, foreign reserves and capacity to import..

It is noted that some States prohibit or restrict oil, gas, coal or other mineral exploration and/or extraction but may benefit from the CGC's procedures, though HFE ought not apply.

11. For EXPENSE/infrastructure, I would also omit any deductions from GST but would confine subsidies to such limited range of items recorded in Budget Paper 3, as calculated by industry/expert specialists in the relevant subjects and programmes working in conjunction with the CGC, and as agreed to be paid for by the Cwlth.

12. For other Expense items NOT subsidised by the Cwlth. but deemed to be assessed by the CGC/expert groups, these payments should continue to be paid by the recognisable DONOR States of NSW and Vic, in keeping with the general tenor of the 2000 GST Agreement's tax bargain. I would temporarily exempt WA from subsidy arrangements in recognition of its financial burden in the last few years. However, I believe the Cwlth. should pay for its own creations, NT and ACT. For SA, Tas and to cover the frequent emergency/natural disasters in Qld (and other States), I would suggest the annual subsidy payments should be made by NSW and Vic on a per capita population basis. I would suggest these arrangements be for say 5-yearly terms, with regular reviews.

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