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The Horizontal Fiscal Equalisation (“HFE”) carried out via the goods and services tax (“GST”) distribution system is but a very small slice (historically circa 10-15%) of the financial transfers from Western Australia to other states via Commonwealth revenue raising and spending.

Each year, the Western Australian Department of Treasury estimates the net redistribution across States that occurs through Commonwealth revenue raising and spending. For each State, the redistribution is measured as the difference between the Commonwealth revenues generated in that State (including GST) and the Commonwealth expenditures for the benefit of that State (including GST grants and the State’s share of the Commonwealth deficit). Further information regarding calculation is set out in Appendix A to the ‘GST Distribution Review – WA Submission’ (http://www.gstdistributionreview.gov.au/content/submissions/downloads/issues_paper/wa_gov.pdf).

Overall, in 2015-16 it is estimated that the Commonwealth derived \$54 billion in revenue from Western Australia, while expenditure for the benefit of the State (including the State’s share of the Commonwealth deficit) totalled only \$32 billion, yielding a net contribution from Western Australia to other states of around \$22 billion, or around \$8,500 per capita (\$16,200 per paid worker). This is about the same as 2014-15, a slight decrease from the \$26 billion (\$19,100 per paid worker) and \$24 billion net contributions in 2013-14 and 2012-13 respectively. It amounts to \$170 billion over the last decade and \$115 billion over the last 5 years (*source: see Figure 1, source item 1; WA labour force figures from the Australian Bureau of Statistics as at June of the relevant year in respect of amounts per paid worker*).

The consistent, structural burden of financial transfers on Western Australia is clearly depicted in Figure 1 below. It is clearly not limited to mining booms and strong commodity prices – the imbalance is merely more prominent during such periods.

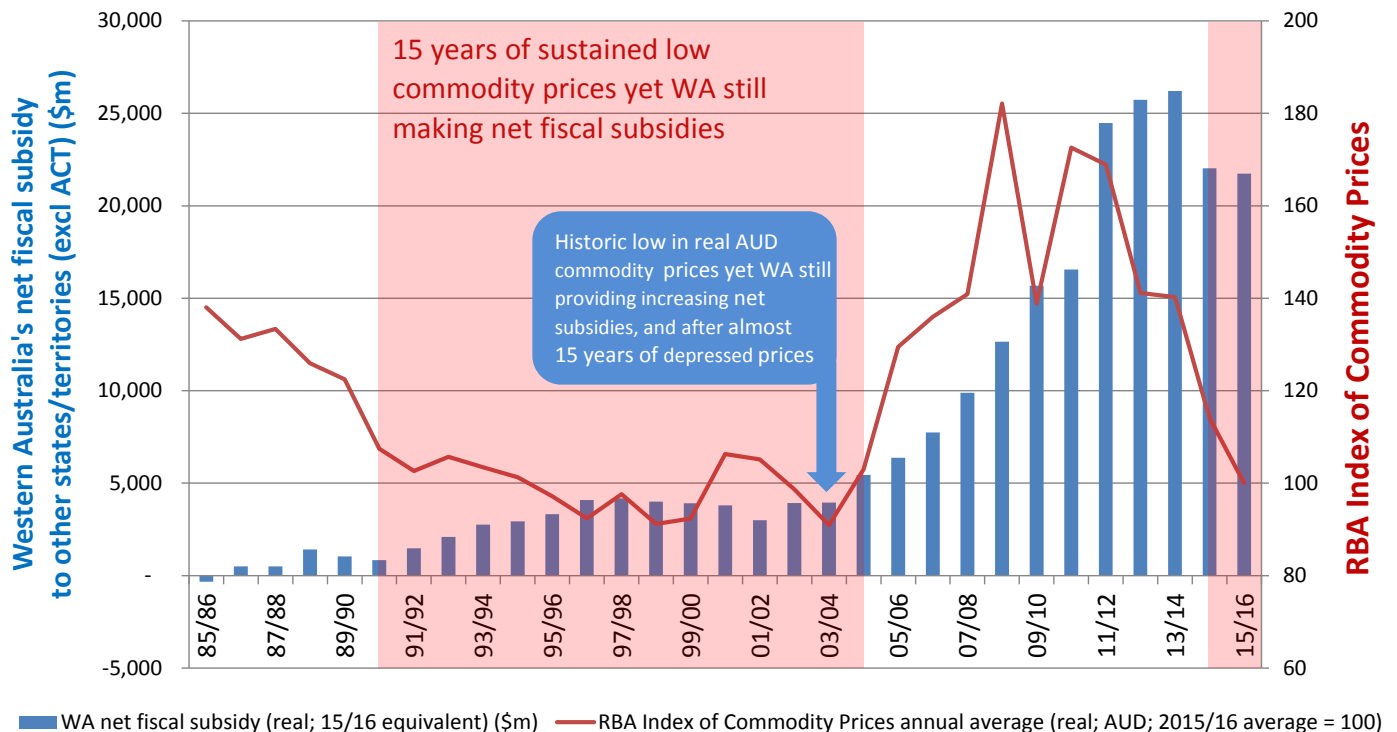


Figure 1: Western Australia's net fiscal subsidy to other states

Sources:

1. WA net fiscal subsidy: Data sourced from Government of Western Australia, Department of Treasury and Finance (http://www.treasury.wa.gov.au/uploadedFiles/Fiscal_Subsidies_96-7.pdf and budget papers found at <http://www.ourstatebudget.wa.gov.au/Previous-Budgets/> refer to Economic and Fiscal Outlook/Overview).
2. RBA index of commodity prices: Data sourced from RBA (<http://www.rba.gov.au/statistics/frequency/commodity-prices.html>).
3. All source data from items 1 and 2 above is nominal. Chart data has then been adjusted for inflation using the simple annual average of GRCPAID data from 'Consumer Price Inflation – G1' from the RBA (<https://www.rba.gov.au/statistics/tables/#inflation-expectations>).

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To put this in context, NSW and Victoria contributed \$4.6bn and \$1.3bn respectively (\$599 and \$216 per capita) in 2015-16. Others received up to \$19,000 per capita per annum. In 2013-14 WA was the only net contributing state (source: refer to Figure 1 above, source item 1).

I also note page 3 of the draft report states:

“A key factor behind this [Western Australia’s share of the GST falling to an unprecedented low] has been the recent mining boom, which had a particularly strong impact on Western Australia’s revenue-raising capacity. This saw Western Australia’s relativity start falling from the middle of last decade. The mining boom is fading and Western Australia’s economy (and revenue-raising capacity) has significantly weakened. However, Western Australia’s share of the GST pool remains historically low, due to the lags involved in the equalisation process.”

Firstly, the mining boom is over, and is unlikely to enter into any new, sustained boom for many years, perhaps decades. Nevertheless, WA Treasury forecasts that by 2020-21, Western Australia’s relativity is projected to increase to only 61.7%. This still remains the lowest relativity faced by any other State since 1942-43 (source: WA State Budget 2017-18, Budget Paper No. 3, page 88).

Moreover, Western Australia’s falling relativity to other states in respect of net fiscal contributions to other states commenced well before the middle of the last decade. Net financial transfers from WA have been going on for at least 30 years, possibly much longer, and includes a sustained, major commodities downturn in the late 90s and early 2000s, when WA was consistently one of the largest if not the largest contributor on a gross basis, and overwhelmingly the largest net contributor on a per capita basis (roughly double the contribution of NSW on a per capita basis).

In WA’s case there seems to be no chance of average symmetry and little chance of even a one-off annual balance in the decades ahead under the status quo.

Conclusion

I suggest that the Productivity Commission complete, or recommend the completion of, further, robust studies in respect of these generally unaccounted for and unnoticed (yet more correct and comprehensive) measures on HFE for each state – essentially quantifying the total effective financial transfers between Australian states.

GST is only the tip of the iceberg.

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if you would like more information or discussion.