

Hearts and minds key to winning more GST

Electoral maths means a fairer tax take will be a hard ask. **Claire Tyrrell** reports

WA needs to more effectively argue that a financially strong West is in the interests of the entire nation if the State is to get a better slice of GST.

A meeting of some of the State's most influential policy makers, held as part of the Curtin University/WestBusiness Outlook Series, found the GST question was political as much as regulatory.

John Curtin Institute of Public Policy executive director John Phillimore said the raw numbers of politics made it difficult to justify increasing WA's share of Commonwealth revenue, because giving \$1 to WA meant taking that money away from another State which may be seen as more electorally important.

"The GST revenue distributed to the States and Territories is a zero sum game — if one State wins another one loses," he said.

"Despite the annual ritual of complaining about a bad result, most States and Territories accept there will be swings and roundabouts.

"At the risk of being branded a heretic I think the focus on the GST by both Labor and Liberal governments has been largely misplaced. The reality is we're never really likely to succeed.

"For the system to change, the Commonwealth or States would need a very good economic or political reason or a discontented State like WA would need to have the capacity to overturn the whole apple cart. Economically, if NSW or Victoria does badly, it affects the whole of Australia."

WA received a return of 30¢ in the dollar from GST last financial year. Queensland got \$1.13, SA \$1.36 and Tasmania received \$1.82.

Professor Phillimore also drew attention to the lack of marginal seats held by WA politicians or "maverick senators" compared with other States, which diminished the State's ability to effectively blackmail the Commonwealth for funds.

"Contrast that with SA and Nick Xenophon, Tasmania with Brian Harradine, Jacqui Lambie and Andrew Wilkie," he said.

WA Nationals leader Brendon

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Grylls said voting habits could change if Canberra continued giving WA a raw deal. He said all the fundamentals to boost WA's share existed, including a sparse population and high indigenous population, but States with more political leverage were heard louder in Canberra.

"I am sick or arguing it — now it's straight politics," he said.

He said Senator Xenophon's influence on SA's GST share and defence contracts showed Malcolm Turnbull focused on issues affecting seats.

"If you want to keep telling WA that's how it works, that's what WA will do," he said.

Former Federal Labor MP Gary Gray said he did not see WA producing a Xenophon-style politician. "I don't think it's the right model," he said.

Mr Gray said a lack of understanding from the Eastern States about WA's economy led to a lack of sympathy for its cause.

"The settlement pattern of WA is very different to the rest of Australia," he said. "They don't understand the nature of our iron ore or the net contribution we make to the wellbeing of the nation. We come across too often as being whingers."

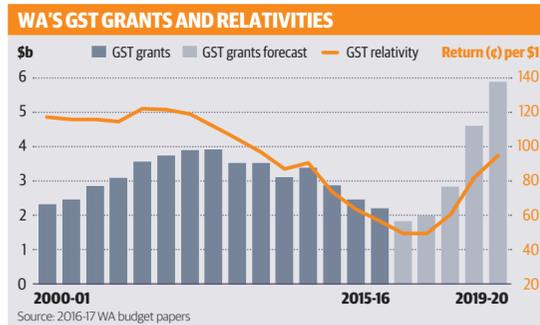
The boardroom panel made it clear that central to the politics of the GST was the historical fact that WA's share of Commonwealth grants outweighed its population share from 1942 until 2008.

But people citing that argument failed to disclose the reason for the disproportionate share WA received — to make up for the subsidies given to the manufacturing industries of other States.

WA shadow treasurer Ben Wyatt said WA's argument around the Federal Government's horizontal fiscal equali-



The roundtable participants tackle the contentious issue of GST distribution. Picture: Ian Munro



sation approach, under which each State should have the capacity to provide equal services and infrastructure, was raised many times to little effect.

"There is zero appetite from the grants commission or Canberra to deal with the HFE issue," he said.

Mr Wyatt said though he disagreed with Mr Grylls' argument for a \$5-a-tonne tax on big iron ore miners, he sympathised with the notion of a "discontented State overturning the whole apple cart".

Lavan Legal managing partner Dean Hely said the mining royalty debate at the very least refocused attention on WA.

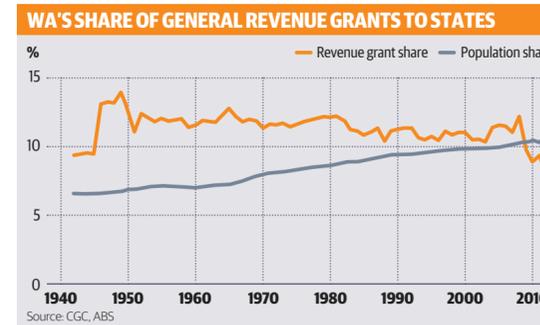
He said the rest of Australia paid attention to WA only during boom times, which supported

the case that any argument for WA getting a fairer deal was "falling on deaf ears". "It does require some other activity to bring people's attention to it — this is drawing people's attention to WA again," he said.

Professor Phillimore said WA's recent economic clout had opened the door for reform of the way the GST was distributed.

"For a while during the mining boom the situation changed and WA was responsible for a large percentage of capital exports, business investment and even national jobs growth," he said.

"At last we were on Canberra's economic radar and we could successfully flex some political muscle for a brief period. There was a better chance than



usual our concerns might be taken seriously. We helped in overturning the carbon and mining taxes and in getting one-off financial payments outside the GST system."

Professor Phillimore said the political needs of other States were ultimately seen as more important by Canberra

"But the resources boom was a double-edged sword. The foreign exchange rate rose, trade-exposed industries suffered and WA's needs weren't always seen as an obvious priority by other States that depended on manufacturing, tourism or international education," he said.

Treasurer Mike Nahan said horizontal fiscal equalisation meant bringing in a new tax would not increase the State's

revenue in the long run. "The differential between the other States is wiped out through the GST — it is a great equaliser," he said. "You can't raise more money."

Former WA treasurer Eric Ripper, who looked after the State's books under Labor from 2001 until 2008, said the Commonwealth benefited financially from WA's economic successes.

"A huge amount of money generated by our economic success is first of all taken away by Commonwealth taxation and expenditure, and the GST is part of that," he said.

"Nevertheless, there are huge expectations in the WA electorate to get a dividend from the boom — the end result is a con-

flict of those circumstances and an increase in State debt."

Dr Nahan said it was possible that future governments could think twice about investing in projects to grow the State's economy because of the way the revenue eventually flowed.

"Let's say we had another Browse come up," he said. "We will put the hundreds of millions of dollars required ... the money coming from it will be equalised with other States."

"Do we factor in GST when we make decisions? So far, no, but we need to do that."

"In the more capital-constrained times, when you have higher debt levels and more demand for everything else in terms of population, future governments might make that decision. I think they will be increasingly incapable of doing it because of the debt restraints and they might go to Canberra and say 'You fund it and exempt it from GST!'"

Mr Ripper said the popularity of seeking special assistance, which was not part of the GST carve-up, presented peculiar problems.

"Every time they ask for more assistance they always ask for it to be excluded from the GST calculation, so that means that ministers can game the State Budget by getting a tied grant, which means the State then has to deal with reduced GST receipts."

Mr Gray said the system allowed individual politicians to "use political leverage to an advantage to the greater disadvantage of the State in an enduring fashion".

Mr Grylls said he was frustrated that Canberra stubbornly refused to acknowledge the huge costs of servicing a booming resources sector — such as building roads, schools, hospitals and utilities.

"I think we could argue until we are blue in the face about how this system was unfair. Five hundred thousand extra people came to WA in 10 years — that's the entire population of Tasmania. We had to build the infrastructure for those people," he said. "If you understand WA you understand it's not about Elizabeth Quay and a sports stadium, it is about the enormous requirement to build the enormous infrastructure of growth that there's been no recognition for."

Mr Grylls said the view that WA spent most of its revenue on vanity projects was a "complete red herring".

"The vast majority of the expenditure was on road networks to reduce congestion and power and sewerage and water to try and keep up," he said.

"How do you think 500,000 extra people came here and turned the tap on and water came out?"

Mr Gray suggested an office of WA in Canberra could help issues such as GST share be heard properly.

"You need to have some kind of bilateral deal between WA and Canberra," he said. "We are as far away as we can get and we don't have anyone in there."

The Commonwealth Grants Commission, which advises Federal Treasury on the GST carve-up according to each State's ability to raise revenue and their costs of providing services and infrastructure, was given a withering assessment by the roundtable guests.

Dr Nahan said that unless there was a like-for-like comparison between States, the commission could not include unique circumstances in its GST carve up.

He said WA's high investment in mining regions, such as recent spending in Onslow, was not recognised and because there was no equivalent of Onslow in other parts of Australia, there was no provision for this investment in the GST carve-up, he said.

"Unless they can measure it with independent ABS data and every State has the same thing, it is excluded," he said.

It's been very difficult to get national public opinion outside over the GST issue. **John Phillimore**

We need a national interest argument if we are to succeed on the GST. **Eric Ripper**

The grants commission has a number of serious flaws. **Mike Nahan**

We come across as being whingers. **Gary Gray**

We've had to build the infrastructure for an entire population of Tasmania. **Brendon Grylls**

There is zero appetite from the Commonwealth Grants Commission or Canberra to deal with HFE* issue. **Ben Wyatt**

Any argument that we should get a fairer share of GST is falling on deaf ears. **Dean Hely**

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