

GST DISTRIBUTION REVIEW

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SOME QUESTIONS OF CONSISTENCY

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One of the things which has struck me in following the debate on this matter has been the number of different ways in which questions of consistency have arisen. The purpose of this Paper is to outline some of these different ways very briefly in the hope that they might be of interest as members of the Panel try to put some of the issues into perspective.

I think it is useful to put these issues under the following headings in descending order of significance:-

- Inconsistencies between views of the more populous States and their own policies and practices.
- The changing views of certain States over time.
- Relationship between views put forward and facts.
- Opinions of academics or former academics.

I turn to discuss each of these.

Inconsistencies between views of the more populous States and their own policies and practices

The views expressed by the four more populous States are by no means identical. However, it would be fair, I believe, to say that they boil down to the view that the current degree of equalisation is too great and that changes should be made of one kind or another which would reduce the per capita grants of the two less populous States and the two Territories relative to those of the more populous States.

It is obvious that the effect of this would, in practice, be to increase rates of taxation or other charges and/or to reduce levels of expenditures in the less advantaged States relative to the more advantaged. (I note in passing that it happens in Australia at present that the more populous States are also the most financially advantaged. This, of course, is not necessarily the case, the situation may change in the future and the situation is quite different in other Federations such as Canada.)

Just suppose, obviously hypothetically, that the Treasurer of New South Wales asked his Department to put together material showing State expenditures per capita for different suburbs, towns or regions and per capita amounts of State taxation or other charges collected in those same suburbs, towns or regions and the differences in the two aggregates. He would find very large differences in the net results across his State – for example, he might well find that the difference between revenue and expenditure per head in the eastern suburbs of Sydney might be higher than in some of the western suburbs. If, very hypothetically indeed, he took the same attitude on this as he and his counterparts are taking on the matter of fiscal equalisation he would make changes which resulted in higher

rates of taxation or lower expenditures per head in those western suburbs compared with the eastern suburbs. This would be regarded, quite correctly, as absurd. The view, again correctly, would be that taxation rates and expenditure policies should be uniform across the suburbs with any differences in the aggregates referred to above falling as consequences of differences in wealth, economic activity etc. rather than as something undesirable. This is the attitude which has been taken to date in Australia about fiscal equalisation with the added bonus, as it were, that the States and Territories have been free to determine their own taxation and expenditure policies.

Of course the above comments relating to the situation at the individual State level also apply at the national level where Commonwealth Government taxation and expenditure policies apply uniformly across the nation.

One way to put the above is that the more financially advantaged States apply fiscal equalisation implicitly within their own jurisdiction but are opposed to the explicit equalisation currently achieved as between the States and Territories. It would, I believe, be extremely useful if the Panel pointed this out in its Final Report although it may prefer to do so in different terms than those I have used.

The changing views of certain States over time

It is obvious that this Review has come about partly at least as a result of the views of the Western Australian Government. It is also obvious that this has in turn come about as a result of the key number in the Grant Commission's equalisation calculations falling increasingly below one.

The well-known Western Australian resident Defence Minister Smith is to be commended for pointing out that this was not his State's view when its number was above one and when it was happy enough to receive above average per capita general revenue grants from the Commonwealth.

The change of views on the part of the Western Australian Government and its advisers are perhaps not surprising but that does not reduce the disappointment which many of us feel that those advisers were not able to take a longer term and broader perspective about what is appropriate in the interest of our nation as a whole. Similar comments might be made about the other more financially advantaged States. Those of us who are able to take the broader, longer term and disinterested view can only hope that the Panel will join with us.

Relationship between views put forward and facts

On this and the following section I choose not to go into specifics as I believe it would be a distraction if I referred unnecessarily to particular individuals. However, I do think there is a real problem in this area which needs to be thought about.

Last year I attended a symposium organised by the secretariat to the Panel attended by members of the Panel, academics, a couple of economic consultants and myself. I was surprised, I must say, by the lack of emphasis put on facts. One member of the group made some assertions about a particular change in taxation made by the States, the circumstances of that change and its effects on Grants Commission assessments. These assertions, which were designed to demonstrate a defect in the Commission's work were wrong on two specific accounts.

Another participant, when asked about the factual basis of what he was saying said he did not want to descend to that level! Something about not getting into the gutter!!

These are perhaps minor incidents in the overall scheme of things but important assertions have been made which, if true, should be capable if not of proof at least illustration by reference to fact. One good example of this is the assertion, made in several forms, that the current system in some way produces a disincentive for States and Territories to encourage economic development. There is no factual evidence for this and what evidence there does exist is to the contrary. I can attest to this as a former senior State Treasury officer.

Opinions of academics or former academics

I will surely not have been the only person to note the correlation between views expressed by some of the academics involved in this Review and the financial interests of the States which are employing or have employed them as consultants. I can imagine in some quarters questions might be raised about what is sometimes assumed to be the disinterested approach to issues taken by academics. In these days of commercialisation may be it would be more appropriate to regard this phenomenon as good customer service! But be that as it may it is I believe something of which members of the Panel would be wise to take into account.

Of the academics who have provided views to the Panel the one with the longest period of involvement in fiscal equalisation discussions is Professor Cliff Walsh. He has made many fine contributions to public finance discussions in Australia. I have known Professor Walsh for many years from the time he was the Economic Adviser to former Prime Minister Fraser and he is someone whom I have always admired; his views are always worth careful consideration. I have in another Paper submitted to the Panel made some critical remarks about Professor Walsh's recent views about property rights of the States. In addition to this recent input, I would refer the Panel and the secretariat to excellent material which

Professor Walsh prepared some years ago as a consultant to the Western Australian, South Australian and Northern Territory Treasuries. Amongst other things this work – a copy of which I earlier sent to the secretariat – supported the positive role which fiscal equalisation played in terms of both equity and efficiency objectives. This is an instance of earlier thoughts being superior to later ones.