

GOODS AND SERVICES TAX, IMPACT ON STATE FINANCES AND ECONOMY

Motion

Resumed from an earlier stage of the sitting.

HON DERRICK TOMLINSON (East Metropolitan) [5.47 pm]: I apologise for not being prepared, but it is best put down to old age. Before questions without notice were taken, I was pointing out that one must understand the historical context of the economic relativities about which Hon Ljiljanna Ravlich was complaining; that is, the set of variables that are now seen to discriminate unfairly against Western Australia. Up until 1968, some argued the reverse: they discriminated unfairly in favour of Western Australia compared with New South Wales and Victoria.

The second matter that one needs to take into account in understanding the impact of the goods and services tax on the Western Australian economy or on the people of Western Australia is illustrated on page 157 of budget paper No 3. I regret that Hon Ljiljanna Ravlich is elsewhere on parliamentary business, because I would like to draw her attention to that page. It contains a picture, and I am sure that she would understand the picture if she does not understand the words. If she does not understand the picture, she could get that person of incredible proportions to whom she was referring, the Treasurer, to explain it to her while she colours in the picture. Figure 2 on page 157 demonstrates graphically what has happened with the revenues of the Commonwealth and the States from 1981-82 until the present. The graph indicates that grants to the States in those two decades have remained relatively constant. In other words, the reimbursement of income tax revenue among the States has not grown in proportion to the revenue collected through income tax. Between 1981-82 and 1989-90, there was an increase of about 10 per cent. That quickly declined between 1989-90 and 2001-02 to a steady state. In other words, the States did not have any growth in their income from income tax revenues, even though there was substantial growth in the income tax revenues when the national economy grew at an average rate of four per cent. There was not an average growth of four per cent in the grants to the States; they remained relatively constant. However, commonwealth own-purpose outlays in the same period increased by 70 per cent. Therefore, the Commonwealth, which has the lion's share of revenue collection through income tax granted to it by the States in 1946 by the commonwealth-state taxation agreement and its constitutional autonomy in tariffs and excises, has had a 70 per cent growth in its own outlays while grants to the States have remained relatively constant.

The third element of that graph to which Hon Ljiljanna Ravlich and other members of the House should pay attention is the relative decline in grants to Western Australia. They declined in that same period after an initial boost of 10 per cent in 1985-86 to 20 per cent below the national average in 2001-02. We then begin to understand the fiscal imbalance and the outlay capacity, not among the States but between the Commonwealth and the States.

The third factor that must be taken into account in exactly the same period is the growth of section 96 grants. Section 96, as I recall, says words to the effect that the Commonwealth may make payments to the States on such terms and conditions as the Parliament thinks fit. The Parliament in that case is the federal Parliament. In its briefest ruling the High Court answered a challenge led by Mr Menzies, the then Attorney General for, I think, Victoria, in the roads case of 1925. Menzies argued that in spite of section 96 the Commonwealth could not intrude into state responsibilities; therefore, the Commonwealth could not direct how the States could spend their roads grants. The High Court ruled that section 96 - the Commonwealth may make payments to the States on such terms and conditions as the Parliament thinks fit - means just that. That was the sum total of the High Court's ruling. In other words, regardless of the sharing of responsibilities under the Constitution, the legislative powers of the States, the restricted legislative powers of the Commonwealth and the separation of the two under the Commonwealth Constitution Act 1901, section 96 enabled the Commonwealth, through payments to the States, to intrude into state responsibilities such as education, health and community services.

The period reflected in the graph on page 157 of budget paper No 3 in which commonwealth own purpose outlays increased by 70 per cent, grants to the States remain relatively constant and fiscal equalisation grants to Western Australia, which is the revenue entitlements plus fiscal equalisation excluding royalties and one-off payments, declined by 20 per cent.

Debate adjourned, pursuant to standing orders.