



PARLIAMENT OF WESTERN AUSTRALIA

INAUGURAL SPEECH



Hon Dr Steve Thomas, MLC
(Member for South West Region)

Legislative Council

Address-in-Reply

Thursday, 25 May 2017

Reprinted from Hansard

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ADDRESS-IN-REPLY

Motion

Resumed from 23 May on the following motion moved by Hon Dr Sally Talbot —

That the following address be presented to Her Excellency the Honourable Kerry Sanderson, Companion of the Order of Australia, Governor in and over the state of Western Australia and its dependencies in the commonwealth of Australia —

May it please Your Excellency: We, the members of the Legislative Council of the Parliament of Western Australia in Parliament assembled, beg to express our loyalty to our Most Gracious Sovereign and thank Your Excellency for the speech you have been pleased to deliver to Parliament.

HON DR STEVE THOMAS (South West) [5.02 pm]: It was tough, but I am back! For honourable members who are unaware, I was the member for Capel in the Legislative Assembly of the thirty-seventh Parliament of Western Australia. The seat of Capel was constructed under a redistribution prior to the 2005 state election, and was then deconstructed immediately afterwards under Labor's one vote, one value legislation, which was, coincidentally, the first piece of legislation that I got to debate in the thirty-seventh Parliament. The 2008 election in Collie–Preston was tough, as it was a notionally one per cent Labor seat. I will never forget receiving a phone call a week prior to the election telling me that, unfortunately, party polling had me three per cent behind, and sadly I was not going to get there. As history shows, I lost Collie–Preston by 0.9 per cent, needing 206 of the 25 000 or so eligible potential voters to shift their preference from Labor to Liberal. But it is very hard to lose a seat. Today I express my sympathy to all those people from all those parties, and their staff, who lost their seat in the March election this year. It is a tough job. Afterwards, the public frequently treats you with some suspicion because you have nailed your political colours to the mast. Businesses may not want to offend their clients who politically lean the other way by employing you, and your former parliamentary colleagues will not infrequently treat you dismissively because you lost, even though they are sitting in safe seats or on unlosable upper house tickets. However, some will not.

I will also never forget Hon Peter Collier coming to Donnybrook to open the upgrades to Donnybrook District High School, which was an election commitment of mine and also an election commitment of the Labor candidate, Mick Murray, at the 2008 election. I stood proudly on the stage with the honourable member—the then minister—and he might remember that I then presented him with a framed copy of the media story and photo of the two of us the year before, lobbying the then Labor government for those upgrades. I thank the member. It was a great lesson that, even after losing a seat, the benefits of what you have done for the community can carry on. In my first speech in the Legislative Assembly in 2005—a rather dour and uninteresting affair of which I am fairly embarrassed—I thanked a number of people. Sadly, after my stint in that place, some people thought I would support their attempts to form a new faction in the south west of Western Australia. When I would not do so—it is something I continue to oppose—I came to know them as a problem for the Liberal Party and the greater community of the south west. Today, it is not my intention to read out a list of names but to simply thank all those people—members of the Liberal Party in the south west and on the state council, and of the general south west community, including

a large number of friends—who have supported me over the last eight and a half years. There are many and I hope to repay each and every one of them in proportion in the years to come. Madam President, with your permission, I would like to correct a terrible oversight in my first speech in 2005. I take this opportunity to finally thank my family—my wife, Leah, and my four daughters, Staci, Lauren, Hannah and Olivia—for their constant support of their always cynical, sometimes grumpy and frequently stubborn husband and father.

Madam President, I salute your elevation to the high office to which you have been called, from this, I must say, highly appropriate, though, at this point, somewhat isolated, right-wing of the Liberal Party. I now want to quote from *Hansard* my speech in the Legislative Assembly in May 2008, and I have a copy for Hansard, although it will be an abridged version because although I have not added or altered any words, I have removed some extraneous sentences from that original speech, which was two hours long. I quote —

I will build a case to demonstrate to the house that Western Australia is missing out on what should be the greatest period of growth and development it has ever experienced.

...

As members can see, revenue between 2002 and 2006–07 exploded.

...

Around 2007 things suddenly changed. Growth in expenditure for the first time in well over a decade started to switch and outstrip the growth in revenue.

...

The first point I make is that Western Australia has experienced a boom that occurs once in a generation, and we are in the middle of the process of blowing that boom. Our revenue will level out.

...

Commonwealth government grants rose significantly in the decade leading up to 2006–07 and 2007–08. Those commonwealth grants are beginning to level off significantly. As I will explain later, one of the great threats to the Western Australian economy is that goods and services tax revenue will begin to decline, not only in real terms and in terms of the amount that Western Australia receives in proportion to its population and the size of its economy, but in overall actual dollar amounts. That will cause significant stress.

...

Although the community of Western Australia will receive less from the commonwealth government, the state government will continue to draw significant amounts in taxation. I will return to that point because it is important to recognise the way in which growth in the fiscal economy—that is, the expenditure of the government of Western Australia—will be funded by taxation revenue...

...

The third point ... is that we can see that although mining royalties were relatively stable in the lead-up to the early 1990s, there was significant growth in the early 2000s. Mining royalties are also predicted to contract at the end of the forward estimates, largely due to the significant price increase in iron ore royalties, in both this and the previous year ...

...

Western Australia's production of iron ore will continue and that iron ore will continue to sell and make good dollars for the state's economy and the gross state product. However, the government of Western Australia will not continue to enjoy additional gains in mining royalties. What problem does the state government face? Its income will start to stagnate. ... it cannot make up for the reduction in goods and services tax revenue and commonwealth grants and the slowing of the boom growth in terms of mining royalties—not the mining sector, but mining royalties, which are completely related to price.

...

Those are the key points about the general growth of the economy—growth in taxation, a shrinking of commonwealth GST payments and a stagnation of the mining royalties that Western Australia will receive. That paints a very difficult picture for a number of reasons. First, if there is likely to be stagnation, there must be a response in expenditure.

...

Any small or large business person ... knows that one of the first things that needs to be done when facing a revenue issue is to address expenditure. There are only two options—either address expenditure or start to move heavily into debt. Debt in Western Australia is an issue that I will return to later.

...

While the economy of Western Australia, which relates to the mining sector, domestic consumption and all those areas, will continue to do well, the fiscal economy, the economy of the state government, will struggle with declining revenues in relation to expenditure.

...

It will drive up debt levels, start to increase repayments and start to have an impact upon all sorts of levels and potentially threaten our AAA credit rating.

...

The decline of GST revenue is a significant problem ... I think we need to look at some sort of renegotiation of the GST sharing arrangements between the state and the commonwealth. The Treasurer and I agree that maybe some other form of GST arrangement is required or, at the very least, the commonwealth needs to recognise that the drivers of the GST revenue that it receives is not the fiscal economy of the government of Western Australia, but the general economy as it relates to the mining boom in Western Australia.

...

If the commonwealth government wants to drive its revenues forward, it needs to look at the GST component and decide whether to change the way GST is calculated ... There are two ways the commonwealth can increase its revenue; it can rejig the GST arrangement or it can invest in infrastructure.

I thank you for that largesse, Madam President, and I have a copy for Hansard so they do not have to dig it out through the various parts of the speech. That speech came from the *Hansard* of the Legislative Assembly of May 2008, and it was mine as shadow Treasurer. I was not 100 per cent accurate in everything I said in that speech, but in lots of ways I was not too far away.

How do we define the boom in Western Australia? I am sorry to do this to members, but I am going to do it in graph form. The fiscal boom of Western Australia, Madam President and honourable members, looks like this. It started way back in the late 1990s, when revenue and expenditure stayed fairly even, and, effectively, finished in 2014. There is a little bit when revenue failed to grow at the same rate, and members will be interested to know that that represents the global financial crisis of 2008. We can divide the boom in Western Australia into two distinct periods—that of the previous Labor government, and that of the next Liberal government. That is the fiscal boom in Western Australia in graphic terms. I ask members to take note, particularly as we start to get to the end; at the end, Madam President, I am happy to table these documents for Hansard, and provide electronic copies.

Honourable members, it is my intention to try to change the debate about the GST to one I believe to be far more economically literate, rather than simply being one of asking for more. When I move around Western Australia, the issue of the GST always comes up. Members are generally of the opinion that our revenue has stayed fairly steady, and then for some reason those people in Canberra who do not like us took away a great slab of it and our revenue has struggled ever since. Honourable members should note from the previous chart that total revenue did not flatten out until 2014 because of the growth in iron ore royalties and other taxes such as payroll taxes. Honourable members should take note that if they compare, in this case, mining royalties over that time and GST—it declines in comparison—and the combination of the two, in effect we hit a problem when GST really starts to fall in about 2014. Members might note that with a little boost in the price of iron ore, our royalties went up in the last year and things looked better; that will, unfortunately, in a couple of years result in the equivalent drop in the GST payments as we go down. Unfortunately, I admit that I got the boom wrong in the speech of 2008. I expected it to finish about 2008, and was confused by the global financial crisis. I did not expect it to travel on for another six years.

What does the Commonwealth Grants Commission do? The Commonwealth Grants Commission assesses each state's capacity to raise revenue. It then assesses a state's capacity to provide services, and the cost of that. It then attempts, perhaps with arguable and questionable results, to average this out to provide an even playing field. It has done so for some 60 years. Before 2000 the mechanism was the federal government grants. Since its introduction, the mechanism available to the Commonwealth Grants Commission is the GST distribution. This process has the unfortunate and rather complex name of horizontal fiscal equalisation. The question is whether such a process is a good thing. We need to be completely honest here. If we oppose horizontal fiscal equalisation outright, we are effectively saying that we oppose the sharing of any windfall in any state with the rest of Australia. We talk about GST per head of population. The GST is a consumption tax and it is very directly related to population, but when we say we want it per head of population, we are effectively saying that we want all of our GST back and we are not going to share.

A number of other proposals that are out there concern me greatly. The problem we have is that we cannot ask the commonwealth government to change the rules arbitrarily in our favour without having an impact on other states. It is like playing a football game and asking to get a special rule in our favour. I have heard suggestions that 25 per cent of royalties should be exempt. That sounds good because the numbers can be made to work, but at the end of that process what happens in Queensland when things get tough? Do 25 per cent of coal royalties get exempt at that point? What happens in South Australia? Do the royalties coming out of Olympic Dam suddenly become exempt? That is not going to work.

That is not the worst suggestion. Unfortunately there was a suggestion during the election campaign, and held since, that the solution to this GST problem is to increase royalties; that is, increase the revenue raised by Western Australia. As we know and as we concede, the

reason that Western Australia's GST payments are so low is that our royalties income and other incomes—for example payroll tax, which, over the period of the boom, went from about \$1 billion to \$3.5 billion—are so high. A solution that simply increases revenue is like pouring petrol on a fire. In a policy sense, this is the equivalent of a rural fire brigade pouring petrol instead of water on a fire. As our revenue goes up, our problem gets bigger, and the solution to that is never-ending. We are in a paradoxical situation.

I ask honourable members to leave behind a proposal to boost revenue by taxing mining companies and, unfortunately, to leave behind the concept that we simply ask for more funding because it is very tough. How do we manage this process? Do we go to Canberra, like *Oliver Twist*, and say, "Please, sir, can I have some more?" Do we go to Canberra and throw ourselves on the floor, beat our fists, stamp our feet and scream like a child in a lolly shop and say, "We demand more"? I cannot imagine Sir Charles Court, that great statesman, doing either of those things when he opened up the North West Shelf. I believe Sir Charles Court went to Canberra with an economically legitimate argument and said, "In order to develop these resources, we need commonwealth investment in Western Australia. We need you to help us with infrastructure", and he negotiated a deal whereby royalties that would have gone from the oil and gas industry to the commonwealth were sent to the state as a method of support. He did not change the rules or add taxes; he worked with the commonwealth constructively to get a better financial outcome. That is the kind of statesmanship and leadership that I ask honourable members to consider now. We can no longer afford to be bogged down in arguments that are not legitimate and are economically illiterate. We have to be smarter.

I will add one more chart, just in case members have some concerns about the price of iron ore in the long term. The chart I am holding up shows the price of iron ore over 60 years. I did this research in conjunction with the federal Parliamentary Library. It is in 2006 dollars, so we have adjusted for inflation. The long-term iron ore price sat between just under \$US20 and \$US40 a tonne up until the early 2000s, when it boomed. Just in case members do not trust my calculations, Citi Investment Research, an analysis company, went all the way back to 1900 and did the same thing. Iron ore royalties only struck that level again in the 2000s. Again, I was a little wrong. I called this a once-in-a-generation boom but it was not a once-in-a-generation boom. I thought my chart showing the iron ore price over 70 years was of a once-in-a-lifetime boom. It was not a once-in-a-lifetime boom because it goes over 100 years. This may well be a once-in-a-millennium boom. We are coming to the end of it, so we need to have literate economic arguments to make this work.

I would like to raise one other issue, stemming from the 2008 election. During that campaign, I had a very good struggle with Hon Mick Murray, the member for Collie–Preston. He and I went toe to toe. I pass on my deepest respects to him and his wife, Anna, who is much nicer than he is; no-one is divided on that. An issue arose during that campaign. My family and I had sold a house and were in the process of building a second one. For a few months, we sought a rental just to keep a roof over our heads. We rented what we called "the rat house", which was a house on the edge of a mineral sands mine, and which was owned by the mine. This house brought my wife to tears almost daily. Unfortunately, it was my decision to take it and I lived with that guilt while we were there. The rainwater tank had rusted and the gutters did not work. We went to Perth for the weekend. When we got back, every bed was filled with rat manure. It was a very difficult place to live but, unfortunately, it was where we lived for a few short months. My wife and children literally spent every day in tears. We rented it from a mineral sands company. During that election campaign someone in the Labor Party decided that that was inappropriate. Using an ex-staffer from Geoff Gallop's office, a story ran in the newspaper that we were receiving some sort of special deal by living in this house. The next day, journalists rang and every time I explained to them that we paid the same rent

as the people before us and the same rent as the people who would move in after us. Any journalist was welcome to come out and take a photo of it because they would be amazed at what they saw. Each of those journalists went away and said, "That is fine." The person who rented this house afterwards confirmed all those issues.

Hon Mick Murray, the Labor candidate at the time, did not make use of that story; he did not attack. In fact, when asked for comment, he left it well alone. I thank him for that. I hope he did so out of a sense of fairness and justice. I would like to think that he did. Unfortunately, my political opponents had to find somebody who was willing to throw mud about the places in which somebody lived and the circumstances of their family. In my view, they had to find somebody with the lack of moral character and zero moral worth who would sink to those levels, and they did. They found the member for Rockingham, the current Premier of the state of Western Australia. My final comment is that it is business but it is personal. I dedicate my time in this house, in the Parliament of Western Australia, whatever length of time that will be, to his removal, and I intend to see it done.

[Applause.]
