

## Federation Speech

**The Commonwealth has steadily increased its power and revenue base at the expense of the states. There is agreement on the need for rebalancing but not the means.**

Could I begin by acknowledging the co-hosts David Uren and Professor Paul Jensen as well as the chair of this morning's session Laureate Professor Emeritus Cheryl Saunders also my co-speakers the Hon John Brumby and Professor John Daley.

I welcome the opportunity to address the conference on this very important topic.

Like many great reforms, the journey to the Federation was not straight forward.

Each colony had particular interests they wanted to protect in the formation of the Federation and fought hard to do so -hard to believe isn't it!

As the smallest colony, two key issues for Tasmania were protecting its voice on the national stage, and protecting its revenue base.

Tasmania played a leading role in the formation of the Federation with Andrew Inglis Clark, who is recognised as one of the principal authors – being born and based in Hobart.

It is interesting to ponder about what Andrew Inglis Clark might think about the Federation as we now know it. On the one hand, some things remain the same:

- the State's have different perspectives and interests;
- Tasmania still expects and has a role at the national table;
- and ensuring that the Tasmanian Government has sufficient revenue to fund services to its community remains front and center of our position.

But some things have certainly changed.

The reach of the federal government has certainly expanded and Vertical Fiscal Imbalance creates real challenges in relation to the responsibilities of the different levels of government. And even where States have retained responsibilities, the Federal Government has increasingly sought to impose controls on that service delivery, because it can.

I also doubt that when framing the constitution that Andrew Inglis Clark would have ever imagined that 115 years later, Tasmania would suffer from an entrenched level of disadvantage largely driven as a result of a lack of scale and growing distance to traditional markets but significantly exacerbated through various intergovernmental agreements leaving the State with less than half of its land mass not locked up in reserves or national parks, largely to appease political pressure outside of the State.

While this is a topic for another day, there is a key point in relation to the way the Federation currently works – the current framework and structure of the Federation makes this outcome a manageable one, albeit though challenging. As a country, the economic consequences of national

decisions that impact on individual States whilst significant, are not entirely disproportionately borne by one part of the community. This is because of the current process of Fiscal Equalisation.

This brings me, then, to the issue of reforming and rebalancing the federation. This was initially a debate about functions, about who does what, and how as a country we can do that more efficiently.

But now, it appears that in large part what the national discourse has narrowed its focus on raising taxes.

It seems to me, the debate about reform of the federation has been hijacked by big States and big spenders rather than being underpinned by an informed and proper discussion about what is in the best interests of the country.

This debate is now operating in a new form of parallel universe where the only way you can possibly balance a budget and pay for services is by raising taxes.

Of course, this proposition is dead wrong. And we don't support what is currently being proposed.

Raising taxes should be the last resort of any policy maker, not the first option.

Unfortunately, it seems at the moment not only has it become the first thing to do, it's become the only thing to do.

And rather than having a proper debate about reform, Australians have been wedged into a debate about how much additional tax should be raised.

There can be no argument that all jurisdictions face growing fiscal pressures, and that the withdrawal of forecast future funding in last year's federal budget compounded those difficulties. However I think it is well understood that it was not the current Federal Government that signed up to new expenditure commitments with scant regard of the fiscal consequences.

It will sound old fashioned and perhaps not of the moment to say this -but with hard work, with discipline, these problems can be overcome.

On coming to Government in early 2014, we inherited a forecast budget deficit for the last financial year of nearly \$325 million or 6.1 percent of total government expenditure.

Yet in little over a year, we have improved the budget to a final operating deficit last year of only \$57 million or just 1.1 percent of outlays, and we are confidently forecasting in this year's budget an operating surplus next year and an underlying fiscal surplus in two years time.

This wasn't easy, and as a Government we made choices that were not popular. We reduced the size of our public sector by around 4%, slowed spending growth to 1.2%. It's worth noting that by comparison, this year NSW's budget sets spending growth this year is 3.8 percent, and the Commonwealth at 3.6 percent.

We raised additional revenues by refocusing and improving the efficiency of our Government businesses.

But we did not increase a single tax, or introduce any new taxes.

Not one.

The response from Tasmanians broadly to the message that as a Government we were prepared to get our house back into order has been very positive.

Confidence is a fickle thing and in a small jurisdiction we have been heartened that for the first time Tasmania is in a position on the national stage where we can proudly claim to have the most confident business sector in the country.

I am a Treasurer, so don't be mistaken - like every Treasurer before me, I understand that more revenue is better than less. But for Governments to have more, it is taxpayers – private business and individuals that have to pay – something that largely seems to have been forgotten.

The absence of any real discussion regarding reigning in expenditure whilst discussing raising taxes indicates to me that a number of jurisdictions have to look more closely at their own expenditures to balance the books before we engage in a debate about raising taxes.

There are two others reasons why Tasmania does not support an increase in the GST.

Firstly, our relative socio economic disadvantage.

Tasmania has unfortunately around 40% of its households who rely primarily on government pensions or payments as their primary source of income.

Our average weekly household disposable income is just \$826 per week only 83% of the national average of nearly \$998 per week.

As yesterday's NATSEM modelling confirmed, people in this income bracket will be hardest hit by an increased GST.

And secondly, it is inevitable as night follows day that once the current GST agreement is opened up for change on things like rate and base, that HFE also will be on the table.

Western Australia has made its position clear on this, and I suspect other states share their views.

A move to per capita distribution of the GST, as the big states want, on the current rate and base would cost Tasmania \$1 billion or so of our current GST receipts – that's around 45% of a revenue base that makes up around 40% of our budget.

So even if the GST was raised to 15 percent, but moved to a per capita model, once you take into account the inevitable Commonwealth offset to fund the proposed income tax cuts and further cost-shifting for health and education, as a State we'd actually be worse off.

Even a move to a hybrid model would over time entrench our relative disadvantage further.

What Government in their right mind would even consider signing up to a deal like that?

But as I said at the outset, this does not mean that we are not up for reform. We are.

Indeed, on any measure, our reform record in past decades shows Tasmania has very clearly been prepared to shoulder its share of the load:

Tasmania abolished every single state tax under the original GST intergovernmental agreement and did so ahead of all states bar one.

The State's track record in relation to National Competition Policy also stands out. Tasmania was one of only two states along with Queensland to receive all of its NCP payments. Some of the major competition reforms by Tasmania include:

- the full deregulation of shop trading hours;
- the freeing up of taxi licences;
- the removal of the monopoly of solicitors on conveyance services;
- retail contestability in the gas and electricity markets;
- the deregulation of tourism accommodation; and
- the outsourcing of community and disability services

And many of the reforms proposed by Harper more recently have already been commenced by this Government, such as:

- Planning reform – we have passed legislation that will frame the first truly single state-wide planning scheme in the country
- We have commenced a major reform of our health system, creating a single efficient statewide model, including outsourcing to the private sector.
- In Human services we are tackling the need for social and affordable housing by extending the way in which we already work with the not-for-profit sectors.
- And last week, the Premier announced that we will be the first state to embrace the opportunities offered by the sharing economy, rather than banning it.

And we're certainly very prepared to actively consider what else might be put on the table.

In finishing let me recap quickly:

As a responsible State we will remain at the table as we have said we would, however, it important that our position and concerns are understood.

Tasmania supports the broad thrust of where the Federal Government is heading in relation to reforming the Federation – the central tenet being that as far as possible, the States and Territories are sovereign in their own sphere.

But at the moment, all of the focus is on expanding the GST and on that measure, we are not in favor of change.

We know as evidenced by Western Australia's well understood position that any discussion on GST will lead to larger states wanting to change the GST distribution methodology and this has real risks for Tasmania and is counter to the national interest.

We have worked hard to strengthen our financial position and see little evidence of that discipline being called for in the national debate.

And finally any change in the GST will have a disproportionate impact on a large part of our population and it is for these reasons that we do not see the need for the GST to be changed.

However this is not to say that the operation of Federation can't be improved, or that the various jurisdictions who make up the Federation can't individually and collectively improve their own performance.

This is certainly something that the government I have the honor of being the Treasurer of is focused on.

Thank you for the opportunity today, and I look forward to the Panel discussion shortly.