

## Building on the boom: decisions for tomorrow, not just today

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Thank you very much for that kind introduction. Tim, I actually prefer another Chinese saying, it comes from [Liuo Sui], who says roughly speaking, that he holds three things dear – economy, compassion and humility. Because from economy comes generosity; from compassion comes courage; and from humility comes leadership. And I think those are three good watch-words for any Treasurer.

I've addressed a lot of happy business audiences in Western Australia in recent times, and no wonder, because we are experiencing one the great economic booms in our history. Let me just remind you of the figures. In 2001 we inherited an economy valued at \$75 billion. By the end of this financial year, we will be looking at a \$123 billion economy.

In terms of growth, WA is now the strongest State economy in the nation. Access Economics recently reported that we have the best outlook of all of the States, and our State is continuing to carve out an ever larger share of the national economy, and naturally as a strong West Australian I hope an ever larger share of national influence.

We are experiencing our strongest growth in many years. The State's domestic economy grew 9% in the year to March 2006, the highest growth rate of any Australian State. Now those of you with a sceptical cast of mind – Robert Taylor perhaps, or a sharp eye will notice that there is one jurisdiction with a higher growth rate, that's not a State, that's a Territory, and a heavily subsidised Territory at that, the Northern Territory. So we won't count them because of their subsidies from Western Australia and others.

Growth of course has been attached to the wonderful performance of our resources sector, but there has also been strong growth in consumer spending, and significant investment in housing.

Let's look at the boom in business investment. Most of it has been in the mining sector – in part a response to China's appetite due to its growth, for our key resources commodities. But we shouldn't forget the continued strong demand from our number one customer, Japan. As a result of this investment, I think there has been private sector investment of \$57 million in Western Australia in the last four years. As a result of this investment, Western Australia accounts for around 20% of projects nationally under construction or committed to.

Our export performance is wonderful – almost 31% of national exports. Western Australia's exports are the highest of any of the States. We export more than Victoria and New South Wales combined, more than those two States combined, and our trade surplus was \$27.2 billion – compared to a national trade deficit of \$16.6 billion. Obviously we're carrying the nation with regard to exports. Without our exports, Australia's trade balance over the year would have been a deficit of \$43.8 billion, and clearly the nation would be in significant economic difficulty without Western Australia's exports.

Those figures provide a window into the good economic times that we've been experiencing. I do have confidence about the

future of the West Australian economy. In the next two or three years and over the long term, I have that confidence. But, we can't be complacent. We do have to continue to work to sustain this growth and to get the most out of it. We can't be complacent about public sector spending. We shouldn't accept unsustainable levels of public sector expenditure or public sector expenditure growth. We've got to continue to provide the infrastructure that a fast growing, but still in many parts an underdeveloped, State needs.

We've got to continue to pay attention to our tax competitiveness – we can't be complacent about that. We can't be complacent about public sector reform. We've got a significant public sector reform program, we are reforming our buying practices, and we are reforming our corporate services. We are expecting to save \$170 million a year out of those two programs when they are complete. We've got a program of specific functional reviews of six government agencies of this forthcoming financial year, and we're looking at further improvements to our project approvals processes, and we've got to keep going with that reform program in the public sector.

We've also got to keep going with our economic reform program in electricity, in water, and in liquor licensing. And we've got to put our shoulder to the wheel behind the national reform agenda, which I regard as a very significant development, promoting as it does further reforms in competition and in regulation, and from a State and labour perspective, investments in human capital through reforms to our health, treatment of chronic diseases, and through reforms to our education and training systems.

As a government we are planning for the future. We are not resting on our laurels. We are not just budgeting for today, but we are budgeting for tomorrow as well. I want to talk to you firstly about infrastructure, then I want to say a few things about tax, and finally I want to talk a little bit about Commonwealth/State relations.

To keep the State's economic growth going we need to invest heavily in infrastructure. That's one of the key roles of a surplus – every single dollar of the surplus is used for debt repayment or for further infrastructure. We've got a massive capital works program, \$18.1 billion in capital works over the next four years.

We have a very big commitment as a State to infrastructure. We are spending in 06/07 about \$2,000 per person on infrastructure. In comparison, if you look at the Commonwealth spend on a national basis they're spending about \$300 per person. So, in our jurisdiction we spend \$2,000 per person – across their jurisdiction they spend \$300 per person on infrastructure. That does show the key role that States, and in particular States like Western Australia, play in providing essential, social and economic infrastructure.

Let me tell you a little bit about that infrastructure program, which is in most part designed to support our fast growing economy. We'll be spending \$2.3 billion over the next four years on electricity generation, transmission and distribution; more than \$600 million in 06/07. And of course the electricity reform program has unleashed private sector investment in generation facilities, which was one of the aims of the program, and clearly an aim that's being successfully realised.

We're spending on water infrastructure more than \$2.3 billion over four years; on the roads almost \$2 billion over the next four years to improve State and local road networks; and the ports don't miss out either – \$487 million over four years on the ports.

Just to give you an idea of what we're doing in the ports in 06/07: we'll be spending \$36.7 million in the Fremantle port, strengthening inner harbour berths to accommodate larger ships; we'll be spending \$24.5 million on the Geraldton port to complete the creation of a specific berth for the iron ore export trade; and a smaller amount but still important, \$7.6 million for the Dampier port.

Public transport is going to get a significant amount of expenditure over the next four years of \$860 million.

We also have a responsibility to provide social infrastructure. The community needs a dividend from the economic performance of the State, but this social infrastructure also has its economic aspect. As the resources companies point out to me when they talk about the need for bigger State Government commitments in the Pilbara in the infrastructure for which we are responsible. We'll be spending \$1.2 billion over the next four years on new education and training facilities, and on maintaining the ones that we have. The big program for social infrastructure is in health – \$3.7 billion over the next thirteen years on thirty-one new hospitals and clinics – a massive, massive capital works program in the service delivery area that the community regards as its number one priority.

Despite the assertions of the Police Union, we are committed to the Police Service. We are resourcing the Police Service with \$305 million over the next four years for the construction and completion of twenty-two facilities around the State, and new technology systems to make policing more effective and efficient.

But it's not only the Government that has a massive investment program in infrastructure. We expect that over the next twenty years, public and private investment in infrastructure could amount to \$650 billion here in Western Australia. If we're up to slide 14, we can see the location of the major resources projects in Western Australia. That gives you an idea of the variety of infrastructure tasks and locations that confront the State Government and the private sector. Significant private sector developments you know about include the \$11 billion Gorgon gas project; the \$1 billion Boddington Gold Mine expansion; iron ore developments in the State's Midwest, not to mention what's happening in the Pilbara; and the potential development of the Browse Basin off WA's Kimberley Coast.

There are however limits to the ability of the West Australian economy to deliver the new economic and social infrastructure demanded by this phenomenal period of economic growth and activity. We are reaching capacity. When I look at what government agencies are doing with their capital works programs,

I see significant underspends. They just can't get the projects completed or underway because of their level of activity in the economy. Access Economics confirmed this view. They say WA is straining at the seam, with everything from labour to materials starting to exceed supply. The value of heavy industry construction work has almost doubled in the last year according to the ABS. My view is we need to increase our capacity to deliver. We need to increase the number of industry participants able to supply the skills and materials the State needs.

WA operates in a global economy. We're the most internationally exposed of all of the States. International businesses may be able to assist us in meeting the capacity challenge that we face. My view is there are many opportunities for joint venture arrangements, for local firms to partner with overseas players to source capacity, expertise and materials insufficiently available in WA's present circumstances.

The government is considering the value of a high level Western Australian delegation visiting key global centres to meet with international firms which have the expertise, experience, capacity and interest, to contribute to our economy at a time of phenomenal economic growth.

We are also developing the State Infrastructure Strategy – the aim is a strategic plan for the provision of infrastructure in WA over the next twenty years. What we want is better understanding between the private sector and the public sector about each others programs, the challenges facing each, so that we get better informed resource allocation decisions in both the private and public sectors. And I am particularly keen to improve continually the rigor of our public sector decision making on capital works projects. We want businesses and people in the community to put forward their views and to identify priorities for future infrastructure needs. We have so far received seventy-one submissions. We are about to release a green paper that will come out in September, that will deal with policies and processes mainly. We will then be releasing the final strategy in 2007, which

will have much more detail on timing, location, cost and funding of specific projects.

If I could now move to talk about tax. We do need to maintain a competitive tax regime. We do need to maintain an efficient tax regime, one that's efficient economically, and one that's efficient administratively for both government and business. We do have a strong record on tax reform. For example, the Business Tax Review Package of forty-six separate measures which we instituted in 2003 and 2004. We are continuing that process with the State Tax Review, which has so far resulted in the staged abolition of three more stamp duties: mortgages; hiring arrangements; and not-real conveyances being abolished in a phased program. That taxation relief amounts to \$117 million in 07/07.

When we've completed our program we will have abolished eleven taxes since 2001. So far since May 2004, we've had four rounds of tax cuts, and we've delivered \$700 million worth of tax relief in this financial year as a result of those four rounds of tax cuts, \$3.3 billion over the forward estimates. And we measure our competitiveness by looking at taxes as a share of our economy. For WA, that share is 4.1% for State taxes, and that's below the State's average of 4.5% which is the expected result for 06/07.

We are expecting a final report from the State Tax Review in the first quarter of 2007, and then we will look at our capacity to deliver further tax cuts. I want further tax cuts, if we've got the capacity. How do we measure that? We look at how sustainable our economic performance is likely to be, and we look at the competing demands for State funds, wages, service improvements and infrastructure. That's the trade-off – taxes, wages, services and infrastructure. A dollar spent on one of those areas can't be spent in any of the other three. So, I urge you all to pay attention to all of those debates, not just to the one that particularly interests you.

One of the issues we will have to look at is our declining share of Commonwealth GST revenue grants. As a result of the performance of our economy, our share of Commonwealth grants

is likely to fall from where it would otherwise be, by \$700 million by the time we get to 2009/10. So we get extra revenue as a result of our economic performance, and then the Grants Commission says you've got more revenue raising capacity, use it. We're going to reduce your share of Commonwealth grants.

As part of the tax reform program, we are re-writing the Stamp Act. By the time we have finished that we will have re-written every piece of State taxation legislation since 2001. I think it has been a massive program of tax reform. We are also working with the other States, to harmonise if we can, payroll tax administrative arrangements. That was a suggestion that arose out of our State Tax Review – business put that suggestion to the government and I've taken it up with other State Treasurers. We are leading the program. We think nationally we can reduce compliance costs for national employers operating in more than one State and having at the moment to pay under completely different payroll tax administrative arrangements.

I will now move to talk about Commonwealth State relations. There are really two aspects to our approach. We are prepared to cooperate in national reform. We are pro-reform. We support the National Reform Agenda. But equally, we make no apology for asserting both our position in the federation and the special circumstances that apply in Western Australia.

I must say that we do get some mixed messages from the Commonwealth Government. Just a week after the very successful COAG meeting, the Prime Minister is lashing the States for alleged failures on power and water. Lisa made reference to his speech to a CEDA audience in Sydney. I want to deal with some of those criticisms, because whether or not they apply in other States, they do not apply in Western Australia. For example, the Prime Minister criticised the States for alleged failure to invest in new water sources. In Western Australia, under governments of both sides of politics over the last ten years there has been an investment of \$4 billion in new water infrastructure, including at least \$1.6 billion in new water sources for the metropolitan area.



The Prime Minister has also allegedly criticised the States for allegedly using water restrictions to increase the dividends from their government-owned utilities. Quite the contrary – if we could sell more water I could get more from the water corporation in the way of dividends, because there would be more water sold to cover the fixed costs of the water corporations operations. So as Treasurer, I don't support from a financial perspective, any unnecessary water restrictions. The Prime Minister also attacked the States for failing to capture stormwater. Well that might be an issue in Sydney and Melbourne, but it's not an issue here where 80% of our stormwater goes into shallow underground aquifers, which we then draw on through bores for gardens and other use, and in fact we subsidise people to undertake that draw on that captured stormwater in our underground water tank.

The Prime Minister said there's no need for water restrictions. Well in Western Australia we've had modest water restrictions. Unlike the other States we've avoided total sprinkler bans. I think what we've got at the moment is appropriate risk management, given our apparently drying climate. We don't know how seriously and how unsustainably the climate is going to dry, but the figures that we see are very, very worrying indeed.

Finally, the Prime Minister attacked the provision by the States of desalination and recycling. I think given the sort of winter that we are experiencing, that Geoff Gallop's personal insistence that we build a desalination plant looks now to be a wiser and wiser decision. We need a climate-independent source of water, to bolster the security of our water supply here in Western Australia.

Desalination and recycling can't be considered romantically – they have to be compared on costs. Desalination I'm told, costs us about \$1.16 a kilolitre; large scale recycling costs about \$1.20 a kilolitre; small scale recycling could cost considerably more. Now, if recycling can compete economically with desalination, I'd be delighted to support recycling. But it's got to be able to compete economically. Nevertheless, we are investing in recycling. We've got a plant in Kwinana producing 6 gigalitres of water annually, and we've put in an application to the National Water Initiative for

a Managed Aquifer Recharge Initiative, where we process waste water to a suitable quality and inject it into the aquifer for later use.

So I reject the Prime Minister's criticisms on water, insofar as they purport to apply to Western Australia, and I think that's one of the issues that we need to be concerned about. So often we get national pronouncements which are based on Eastern Seaboard circumstances – not necessarily on Western Australian circumstances. And that's why I think it's very important for us to fight for our place in the federation, for the maintenance of the true spirit of federalism, and for specific and separate consideration of Western Australia's circumstances.

I'd like a lot to make a couple of comments about Peter Costello's plan for federalism. He seems to want to have the Commonwealth take over all State taxes. Well one of the great problems of our federation is technically called vertical fiscal imbalance. It's the mismatch between the spending and revenue raising capacities, and responsibilities of the two levels of government. Quite frankly, we cannot raise enough revenue at State level to provide the services that we need to provide that our community expects. Meanwhile, the Commonwealth raises much more revenue than it could possibly ever require for its own responsibilities. That leads to ambiguities about accountability, cost shifting, blame shifting – ideally the government that spends the money should be the government that raises the money. It's best for accountability if there is equal responsibility on the two sides of the argument.

Not only does the Commonwealth raise much more money than it needs, it raises much more money from Western Australia than it spends here. And I thank Lisa for her opening comments on this issue. On the latest figures that we have, the Commonwealth collected \$28 billion from Western Australia, but spent only \$24 billion here – \$4 billion taken away and spent in other States. New South Wales and Victoria also subsidised the rest of the Country, but ours is the largest per capita subsidy at \$2,000 per Western Australian per year. Now of course we've got to subsidise Tasmania, and probably South Australia. I don't think we should

be subsidising Queensland, and I don't think we should get back the entire \$4 billion. But I do think that portion of that \$4 billion should be spent by the Commonwealth directly on our infrastructure. They will win, as we will win if that happens, because the Commonwealth reaps ten times as much in fiscal returns from a standard resources project in Western Australia as the West Australian Government does. The Federal tax cuts were really based on the sterling performance of the WA resources sector in particular.

That subsidy is growing. Twenty years ago there was a slight subsidy to Western Australia. In the twenty years since 1986, the subsidy has now grown to \$4 billion per annum. And I really expect that given the performance of our economy, that we can expect to see that subsidy grow quickly to \$5 billion and beyond – a very significant issue for us all to think about.

Can I say that a large amount of the money that we receive from the Commonwealth is in the form of tied grants. They reduce our budget flexibility; they distort resources allocations; the result is increased intrusion by Commonwealth Ministers in areas of State responsibility. That's one problem. A second problem is the myth of the GST bonanza. It is a myth. In 2006/2007, we're expected to receive in WA only \$59 million more than under the pre-GST arrangements. So don't believe it when Commonwealth Ministers try and pass responsibilities to the States on the basis of the alleged GST bonanza.

I make those comments about Western Australia's position, but I do think we've got to give equal weight to the other side of the argument. We do have the capacity to work with the Commonwealth and the other States in support of National Reform Agendas. I think the COAG meetings that have been held in February and July of this year have been historic meetings producing significant outcomes. I strongly support, as does the Government, the new National Reform Agenda, embracing as I've already said competition reform, regulator reform, and investments in human capital. Our mutual aim is to raise living

standards and improve services by lifting the nation's productivity and workforce participation over the next decade.

So we've got to hold these two things in balance. We've got to assert Western Australia's unique circumstances. We've got to assert our rights, because we are far away from the most populous centres in this country, and we do have a distinctive economy. We do have a small population, so all of those are good reasons for us to assert that we need local control over decisions which impact on us, and we do need the nation's leaders to think carefully about how so-called national solutions might impact on Western Australia. On the other hand, there is excellent work that can be done together with the other States and the Commonwealth, to lift our rate of economic growth and to improve our living standards.

Could I now conclude by saying this. These are very special times – great times to be in business in Western Australia and great times to be looking for work, and a terrific time to be Treasurer of this State. But we can't be complacent. Now is the time to ensure that we deliver on Western Australia's enormous potential. Now is the time when we must pursue reform opportunities. Arguably it is easier to achieve reform when there's a bit of growth around and people aren't doing it hard. Now is the time to work cooperatively, but also assertively with the Commonwealth to get a better outcome for the nation and for all Western Australians. And if together we fight complacency and we embark on these reform programs and we make wise investment decisions, we will have played our part in making Western Australia a vibrant and prosperous place for many years to come, and subsequent generations will look back and say in that boom, they gave us this legacy. And that's what I'd like them to be able to say.

## **End of transcript**

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