

# TRANSCRIPT

## LEGISLATIVE ASSEMBLY ECONOMY AND INFRASTRUCTURE COMMITTEE

### **Inquiry into Commonwealth support for Victoria**

Melbourne—Friday, 10 December 2021

#### **MEMBERS**

Mr John Eren—Chair

Mr Gary Blackwood—Deputy Chair

Ms Juliana Addison

Ms Christine Couzens

Ms Steph Ryan

Ms Kat Theophanous

Mr Nick Wakeling

#### **WITNESS** (*via videoconference*)

Dr Angela Jackson, Lead Economist, Equity Economics.

**The CHAIR:** Thank you for joining us, Angela, for this very important hearing of the Legislative Assembly Economy and Infrastructure Committee's Inquiry into Commonwealth support for Victoria. All mobile telephones should now be turned to silent.

All evidence taken by this Committee is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today. But if you repeat the same things outside this hearing, including on social media, those comments may not be protected by this privilege.

All evidence given today is being recorded by Hansard. You will be provided with a proof version of the transcript for you to check. Transcripts will be ultimately made public and posted on the Committee's webpage. Could I remind members to mute their microphones when not speaking, to minimise interference.

I now invite you to make a 10-minute opening statement, and then we will follow on with questions from the Committee. Thank you very much.

**Dr JACKSON:** Thank you very much, and thank you very much for having me. I would like to just start by acknowledging the traditional owners of the lands I am calling from today, the Wurundjeri people of the Kulin nation. I pay my respects to elders past, present and emerging. It is a fortuitous day, obviously, to be presenting in front of you, with the budget updates to newly read and go through. I cannot say that I have read the whole document already this morning, so apologies for that. I will do my best to pick up in the comments some of those updated figures. I think what we can see today though is that clearly while the Victorian economy is recovering well, it alongside New South Wales, has been particularly hit hard in terms of the COVID-19 pandemic in terms of its fiscal position. This is true also obviously at the Commonwealth level, where we have seen huge reductions in revenue and huge increases in expenditure. So the fiscal position across the board and across state and Commonwealth governments coming out of the COVID-19 pandemic is a lot weaker than it was going in.

I guess the question you want to answer today is: are the current arrangements between the Commonwealth and the states fair in terms of how that impact has been felt across the states and territories, and what can we do to look to reform some of those systems? I guess the short answer is—as a broken record, having been in this space and studied economics now for 20 years and certainly having read about this even before that, possibly in high school, around the reforms obviously under the Paul Keating Government around trying to address horizontal fiscal imbalance in Australia, so that vertical fiscal imbalance—the fundamental problem here obviously is that the Commonwealth has the power to raise all the revenue and yet it is the states, and the local governments to a lesser degree, that are responsible for the delivery of services. It creates this ongoing tension and this ongoing inability of state governments in particular to really have agency and control over those revenue-raising powers. And then you get these fights and you get this incapacity at the state level to really meet the needs of their population in the best way they see fit.

Even today what we see is—and I know you probably know this—state governments only raise 15 per cent or so of revenue, local governments around 3 per cent, and yet they are responsible for half of all the spending. So those two numbers just do not add up, and what that means is you are relying on the Commonwealth all the time to give the money to the states and the local governments to deliver the services they want to deliver. That creates fights, friction. It politicises the process and means really for state governments they cannot plan properly. Now, I think in terms of what you are particularly concerned about at the moment, which is around the GST revenues and the expiry of the no-worse-off clause, this is clearly going to have a huge impact I think, particularly across New South Wales and Victoria. It is going to benefit Western Australia, and there is no doubt about that. In terms of overall sums involved, in some ways at the Commonwealth level, as they spend \$80 billion on a JobKeeper program, they probably think, 'Well, this isn't huge bucks; why are you caring?', but obviously we know for state governments it does matter—that a billion dollars is a lot of money, and not having access to that does mean real things in terms of what they can provide to their schools and to the hospitals and the services that Victorians need.

Addressing that and moving back to a system, whether or not it is the previous system, that provides actual equity across the board and does not just benefit Western Australia is something that I think politically you will see you probably have agreement across all the states and territories other than Western Australia. Now, that is not to say that Western Australia does not have some case to play, but clearly they benefit disproportionately from higher iron ore revenues; that is something that supports their budget considerably. Yes, they need support

to maybe manage some of the ups and downs of that—and whether or not there need to be specific Commonwealth levers in place, so that where iron ore prices do drop dramatically there can be emergency support to support the Western Australian Government definitely I think is something probably the other states would be open to. But I think to set the whole system up on the basis of that does create these inequities, and it does mean that states like Victoria are going to be worse off.

I think, more broadly than this—and this is where I am probably going to go into territory that is politically quite difficult—there does need to be a real consideration around wealth taxation. So this is one area where states really walked away, through the 70s and the early 80s, from inheritance tax, wealth taxes. And what that means is that as a country not only do we therefore rely on the Commonwealth to raise all the revenue, we also rely on income tax to raise all the revenue, and that creates huge inefficiencies. It probably overall lowers productivity. And as we face in the next 10 or 20 years this huge transfer of wealth from baby boomers to their children, it is also going to lead to a lot of inequality across our society. So there is also I think within this that conversation around, ‘Are there other sources?’. Is there some sort of pact between the Commonwealth and the states which might see states move more towards wealth taxes, allowing the Commonwealth to reduce income taxes and reduce its support potentially for states, giving states more agency over their revenue going forward and a more secure revenue base going forward as well? That is where I will probably leave it and then allow questions and the time for that—just on a really non-contentious point.

**The CHAIR:** I might kick it off. Angela, can I just ask, in relation to the comments that you have made, what changes to the 2018 GST distribution reform would Victoria be seeking under those circumstances that you have described?

**Dr JACKSON:** When the PC came up obviously with their reforms they said, ‘Let’s do it based on the average’, which again would have benefited probably Western Australia potentially more. And this is the question, right? And then the Commonwealth has obviously gone, ‘Well, we’re going to have it as the stronger of New South Wales or Victoria’, which is probably going to mean in the next few years it is going to be New South Wales rather than Victoria, although we will have to see the budget update out of New South Wales, which has not been released yet, to see exactly what those forecasts are. I think moving back to I guess the previous system, which based it on the best performing—which would be in this case at the moment probably Western Australia—would mean diverting some of that compensation that is going to Western Australia to the other states to ensure that people are in a similar fiscal position. So you would use it I guess to transfer the overall revenue to the states, but you also do it to provide more equity across the states in their capacity to raise revenue, in a similar way as I guess our income tax system does.

We tax effectively the higher earners, and we do redistribute that money to lower income earners to create a more equitable system. And I think it created problems for Western Australia, particularly with the volatility in the iron ore price, and I understand that, and I think that is whether you have a mechanism in place to allow for quicker adjustment, particularly if you are only adjusting over three years, which obviously has benefits in other cases but for Western Australia it creates specific concerns because it means their budget is very volatile in terms of the iron ore price. But I think you can create a mechanism, whether it is an ‘If you have more than this within a year change in revenue due to—then we will provide emergency assistance’ type of arrangement, to provide that smoothing so that individual states are not necessarily open to that volatility.

**The CHAIR:** Thank you. Gary, do you have a question?

**Mr BLACKWOOD:** Thanks, Chair, and thanks, Angela, for your presentation. Angela, how do you think the Commonwealth can better support Victoria’s economic recovery from the pandemic?

**Dr JACKSON:** A few ways. There has been a lot in the media around I think the infrastructure spend and that potentially it is not particularly equitable. I think there does need to also be a real understanding that infrastructure is part of the problem but what Victoria has experienced during this pandemic obviously and the economic hit and the social hit go much beyond that. I think if we think about the long-term mental health impacts for Victorians, the long-term impacts on our education, higher rates of domestic violence and the likely much higher healthcare costs as well—and we certainly saw, during the reopening, demand in the public system just going to levels previously not seen—there is a need I think for the Commonwealth to really take a look at ‘Well, what are the needs going to be in Victoria in this recovery period?’ as we recover as a community and as an economy and see it more broadly than just—

The jobs will come back, and that is going to be great, and that is a really important part of the picture, but there is a lot more that has occurred during this pandemic than just people losing their jobs, and there therefore needs to be a lot more in terms of the recovery. I think New South Wales is probably going to be in a similar situation, and that is very different from other parts of the country that have not experienced lockdowns to the same extent, where there simply are not necessarily going to be those long-term impacts on service provision. Because there is obviously going to be a greater demand for a lot of services as a result, but also if not addressed, on productivity—we know that poor mental health is associated with much lower levels of productivity. We know that if we do not address the education shortfalls, particularly for disadvantaged kids, that is going to impact their transition into employment and further education. So I think help, particularly with those states most impacted, with strengthening those social services is also quite critical and timely. I note Victoria has obviously invested more. New South Wales has also indicated greater investments. But whether there is a fiscal power there to really put the money in where it is needed and when it is needed, I think there is a role there for Commonwealth support.

**Mr BLACKWOOD:** Thanks, Angela.

**The CHAIR:** Thank you. Kat, did you have a question?

**Ms THEOPHANOUS:** Thank you, Angela, for the evidence you have provided so far. My question goes to I guess the impact that you foresee from the new GST system. Under the new system, Victoria is predicted to lose GST revenue when the no-worse-off guarantee ends in 2026–27. So what do you foresee the likely impact on public service provision would be when that happens?

**Dr JACKSON:** I mean, obviously that is ultimately going to be a question for the Victorian Parliament and whoever is in government then in terms of, ‘Well, how do we cope with this lower level of revenue?’. But ultimately it will mean less money for those services for the Victorian people and it will mean less ability to increase services as well for the Victorian people and to meet the future demand. Because I think one of the things obviously also to keep in mind is, yes, some services are relatively flat—as you would know, in the budget—and some things are relatively stable, but other services are obviously growing very quickly, health being one. So the ability to respond to that and to meet the demands and the needs is going to be diminished clearly, and that is going to mean longer wait times. It is going to mean more stretched services for the Victorian people. Alternately, and this is in terms of the budget, I guess the other choice is to just spend the money and to go more into debt. Well, the debt level is already projected to be relatively high, and that will create greater uncertainty and greater risk around that fiscal position going forward, particularly in an environment where internationally we may see interest rates rising and that will put even more pressure on the budget.

**Ms THEOPHANOUS:** Thank you.

**The CHAIR:** Thank you. Nick, do you have a question?

**Mr WAKELING:** Yes, thank you, Chair. Angela, thanks again for your submission. You raised an interesting point about death taxes, on which I would be interested in your views. But more importantly, I would just be interested in your view of state taxation—say, payroll tax, land tax, stamp duty—and how you grapple with that issue with GST in terms of your view long term in terms of state taxation versus a federal taxation system through a GST.

**Dr JACKSON:** Again, I think Premier Perrottet was at the press club in Sydney yesterday or on Wednesday talking about some of these issues. There is a need and there is a capacity for states to reform things like land tax and like payroll tax. But they cannot give away those revenue streams without fundamental tax reform across the board, and because they do not necessarily have control over some of those other levers it makes it very difficult to do. So Victoria and I think New South Wales are now grappling with this. There is a strong commitment there and a stated commitment from the New South Wales Government around stamp duty reform, which is a really good reform, and it improves efficiency and the operation of the property market in particular. But they are running into I imagine similar problems that were probably in consideration of some of these issues in Victoria around how you pay for it, how you bridge this gap. Unless the Commonwealth comes to the party, it is just not going to be possible.

Once again what are we left with? Well, we are left with as a country missing out on really valuable reforms that could really improve outcomes for people, that could improve the operation of the property market in particular, that would improve economic growth, productivity, overall welfare, and we are not doing it, again because who pays for it? They just seem like such, I do not know—these are arguments we have been having for 30 years. We need more progress and more commitment across the board to really sit down and say, ‘Look, our tax mix at the moment is not efficient, and it’s not underpinning the best economy we could be’. A better mix would have a good mix of income tax, of capital taxes, of wealth taxes—and I know politically we can call them death taxes and they are not popular, but it is an extremely efficient form of taxation and a very fair form of taxation—and of consumption taxes. How do we get there and then move forward so that we can all enjoy a much better functioning economy that is also more equitable, which is one of the things I focus on—the idea that if you have a more equitable economy, it is also a more productive one, which is backed up by international research and the empirics of the situation.

But that is going to take cooperation between the Commonwealth and the states. Look, potentially coming out of COVID you are going to see, and you have certainly seen, premiers more visible on our TV screens than ever before, taking real leadership positions. Potentially if they come together around some of these issues and there is common ground, there is capacity for these types of agreements like there has not been before, because I think the political carry of most state premiers at the moment is relatively high, let us say, coming out of the pandemic. I think state populations have been pretty impressed by the quality of leadership across the board, and perhaps it is a time where they are in a stronger position to be arguing for some of this overall rebalancing of the system.

**The CHAIR:** Thank you. Chris Couzens, do you have a question?

**Ms COUZENS:** Thanks for your time. We really appreciate it today. What are some of the systemic issues that result in economic policy having a different impact on women compared to men?

**Dr JACKSON:** How does that happen? I have just done a report on this that sort of goes back in time and really looks at the history of inequality. You go back and you think back to a time when it was rare for a woman to go to university, right? My grandmother was not allowed to finish high school, because she had to go to work to pay for her brother to finish school. So we are coming from a base where there were huge levels of inequality, and the progress has been phenomenal as women have had access to education, gained high levels of education and participated more in the workforce, but gender norms still remain, particularly within the household. That is, I guess, the primary source of a lot of the ongoing inequality for women. It is around who does the unpaid work and who does the paid work within a household and how government policies particularly in Australia, compared to internationally, continue to support those traditional roles.

So what we see for Australian women in particular is, and this applies to Victorian women, they are amongst the most educated in the world and they perform very well early in their careers compared to men and in fact earn more in terms of if you have got younger women, but as soon as they have children, that changes. That is largely around policies that continue; there is personal choice in that and there are households and social norms in that, but we also have policies that very much support women as primary carers, particularly in the early stages of life. That tends to cement those gender roles in a household, and it tends to make it very difficult for women in that negotiating about who is doing what to then break out. They are then seen as the secondary earner. And also research out—not mine, but research out—recently was that for women and men to have an equal share of household chores, women have to be 100 times more productive.

So what we often hear is that the reason we have this allocation is because it is efficient, but for it to be equal the woman has to be 100 times more productive than the man. That, to me as an economist, says, ‘Well, that’s not a productive allocation or an efficient allocation of resources in our economy that’s occurring at the moment’. Then the second thing is obviously child care. The cost of child care affects heavily that second earner, and particularly in Australia where we heavily subsidise those first three days, and increasingly four days, of care but not for the full-time care and not for also women who might happen to be married to men who are earning more income. So because we see it as a household and we do not see it as an individual, that can also lead to a lot of women not fully participating in the workforce as much as possible.

**The CHAIR:** Thank you for that. Juliana, do you have a question?

**Ms ADDISON:** I do. Angela, thank you so much for presenting to us today. I really have enjoyed listening to what you are saying. Taking what we have just talked about a step further, how is lower GST revenue likely to affect the economic and social wellbeing of Victorian women?

**Dr JACKSON:** I think the extent to which we see that it results, for example, in the state government not being able to spend the same amount, for example, on early childhood and education will impact on female participation in the workforce. If it is reducing, for example, spending on education, we know that child development is very heavily linked to female participation, so we will often see that women will reduce their hours of work if their child is not developing as they should or as they are expected to. So if you spend less on education and less on those intervention services, then women will generally invest more in their children and invest more time, so it will have that impact.

Obviously also if we think about some of the other areas where there are investments currently, and big investments, from the Victorian Government—like domestic violence—the capacity to spend in those areas will be diminished. That will have a disproportionate impact on women or on mental health, where particularly young women, generally speaking, suffer poorer mental health than any other group across society. Anything to the extent that it limits the ability of the Victorian Government to invest and to deliver its mental health reforms will disproportionately affect women as well. I mean, the Victorian Government, if I may say so, has a rather large agenda, so there are a lot of areas where that lower fiscal envelope is going to have an impact.

**Ms ADDISON:** Thank you.

**The CHAIR:** Excellent. Thank you. Any further questions from anybody? No. Well, thank you. That was very comprehensive.

**Dr JACKSON:** Thank you.

**The CHAIR:** Angela, if we do have further questions or require clarification of anything that you have said, we will write to you if that is okay—

**Dr JACKSON:** Okay. No, that is fantastic.

**The CHAIR:** and you can respond in writing.

**Dr JACKSON:** Thank you very much, and have a fantastic weekend. Merry Christmas.

**The CHAIR:** Thank you, Angela. You too. Take care.

**Witness withdrew.**