

## States vs Commonwealth Funding, October 2015 update, F.Humbert(Fran).

It is a bit rich for the Commonwealth treasury to suggest that WA should fix its affairs and revenue first, when it has little avenue left(not already visited by the Commonwealth) to find new taxation on its own while the Commonwealth itself is missing the collection of \$150billion of revenue which has nothing to do with the States, but simply resulting from a Federal lack of discipline to put the Commonwealth treasury house in order and lack of expertise to collect this missing revenue, the smaller the WA \$36billion of debt looks in the context of the Commonwealth missing the collection of at least \$150billion of revenue, the worst it looks to only one million of households in WA, another soar point in the Commonwealth vs State funding.

There are many reasons that should make the States sceptical about Canberra's ability to fix its own revenue problem which has little to do with the States.

Currently the federal Commonwealth revenue is missing purely on its own six time the whole WA State Revenue, or around \$150billion, the missing revenue will be climbing to an incredible half of the Commonwealth revenue in the next five to ten years if nothing is done to fix the hemorrhage.

Each federal budget year :

- \$50billion of abused super tax concessions is missing in the revenue,
- \$10billion from loopholes in NG and capital gains are missing in the revenue,
- \$20billion of GST is not collected from eCommerce and plastic card transactions,
- \$20billion is missing from VL/VO minimisation schemes in Corporate taxes,
- \$40billion is missing in income tax from VL/VO and 457 and other abuse of the income tax system.
- \$10billion to \$100billion in addition are missing in the Australian Economy indirectly through the transformation of equity into Debt in Real Estate and other tax minimisation schemes.

Total \$150billion to \$250billion are missing in Commonwealth revenue for failing to put its house in order, and little chance to see improvements because the technical expertise both staff and skills to deal with the internet and the global economy loopholes is nowhere near what is required, nor is the will from treasury to change this.

But it is equally misguided to suggest that no solution exists when our WA Treasurer says:  
"We are constrained constitutionally from levying other sorts of taxes so our options are limited".  
(The ABC news on Friday Oct 16, 2015 reported this comment).

*No, not constitutionally, nothing stops WA today to part from all Commonwealth Grants, only planning and not constitutional issues would be preventing such a move. For example the State can decide to collect instead of Grants, the whole income tax and FBT and Sales tax in WA, together with the GST, while versing a fair share of 33% to Canberra and at the same time keeping other State taxes unchanged, this would increase the current State revenue by around \$20billion a year enabling a smooth repayment of our debt, see detail below, but while there is no real constitutional impediment apart from a high court desperate challenge(see below), **the main obstacle is the probable absence of a bi-partisan commitment which would make such change a political suicide exploited by very large lobbying companies and pollsters behind the scene of our elections.***

**So is there really no other solution as suggested by our WA treasurer?**

**1- No, other solutions do exist**, unlike Canada where the role of the States has been changed not that long ago, or the US of A where States can file for Bankruptcy under Chapter 9, or the UK which amended its constitution a long time ago to operate mostly by legislation, the Australian Constitution had around fifty amendments since 1900, but none related to the Commonwealth versus States funding arrangements or the role of the States so the **1900's initial constitutional text spirit still applies about funding arrangements**. In our constitution's the Commonwealth is ultimately liable for the debt of the States and apart from bounties(royalties) which can be levied by both Commonwealth and States, the States are in charge of collecting most Revenues and pay the Commonwealth a fair share of it, not vice-versa.

During WWII, the High Court using the power granted to the Commonwealth in war time to support war efforts, **reversed the roles in tax collection without amending the Constitution**, mostly to help federal collection of the income tax during the war years. Later all kinds of "Gentleman Agreements" never amended in the Constitution were made between the States and the Commonwealth, the most recent is the GST and this confusion about the role of the Commonwealth in tax collection has subsisted until today. So can the State run their funding agenda? yes, this is a fact but one can expect the high court to challenge it .

Note : Apart from the High Court protecting a growing Commonwealth, nothing prevents the WA treasurer to walk today into the Perth Mint and Print Guildings as a new WA Currency. No amendment in our constitution says otherwise, nor is anything in our Constitution preventing WA to collect income tax and pay a fair share to the Commonwealth but beside the High Court raising eyebrows would voters understand?

**2 - No the States options are not limited in any way**, these are only limited by the current framework, but as mentioned by previous Commonwealth treasurers and I think even the current one, all options are on the table, given that the entire Commonwealth and States Taxation is jointly up for review, as in the current taxation white paper by the way.

But agreed, without reviewing the whole framework and only using the current one, WA has lost the capacity to raise enough revenue to live on its own or pay the full debt on its own, lets face it, \$36billion of State Debt is small but beyond any form of levy for our one million households, given that our household debt to income ratio is the highest in the world, taking this State debt further without some form of special financial assistance plan agreed by the Commonwealth will be extremely controversial to say the least, building infrastructures is good for jobs, printing them is even better, but beware some local and State politicians may have indirect vested interests in building infrastructures mortgaging your own roof in the worst case.

*Discussions with any Federal treasurer outside of a jointly Commonwealth and State framework like TWP is a waste of time. State funding arrangements outside such type of framework review are just useless, but the TWP is weak in suggestions including different funding models with figures so WA has to prepare its own Tax reform case.*

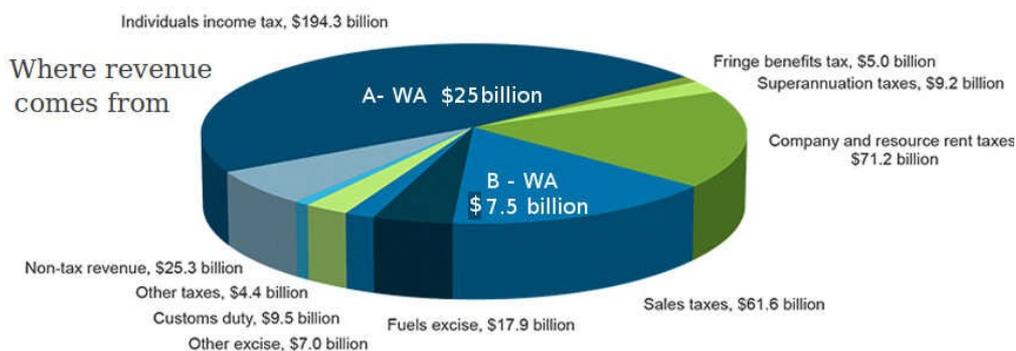
**To participate in Tax reform talks WA needs to have side by side, two scenarios A(current funding arrangements) and B(State collecting all taxes) and work out the new mix, C falling somewhere between scenario A and B in such proposed discussions:**

**Scenario A** is a detail analysis of the current contribution of the Commonwealth to our State revenue with a quantified breakdown per item, grants tied or untied, co-contributions etc... Current Budget pie in State budget papers including the \$9billion grants received etc...in a total WA revenue of \$25billion .

**Scenario B** is a quantified item scenario where the State collect all possible taxes, Corp, income, GST, special levy royalties etc etc etc and masters all its expenditures.

Total revenue for 2015-16 is expected to be \$405.4 billion

Contribution from WA  $\$405 \times 12.5\% = \$50$  billion



WA average 12.5% of the national total in contributions to the federal revenue, further more the part of the Commodity in our Global economy which has not been diversisfied enough is central to the movements of our currency.

As it stands WA contribute \$50billion to the federal Government.

To this amount must be added the \$10billion of WA Contribution to the GST.

If WA was to abandon the \$9billion received from Commonwealth Grants and collect all taxes(\$60billion, 50+10 just above) and repay a fair amount of 33% of it to the Commonwealth(\$20billion), the WA revenue would receive an additional \$40b and the current WA budget would not be the current \$25billion, it would be now  $\$25b - 9b + 40b = \$56b$ illion, what it means is that a portion bigger than the WA entire revenue is sucked each year from WA to feed the Commonwealth pet projects, all that may look bizarre and still be palatable, that is until our WA state accumulated \$36billion of debt is thrown on top of the head of one million WA households, to make WA citizens angry at the ballot box but blaming who?!

***For the purpose of the initial scenarios at the top of this article with WA just collecting Income tax FBT sales tax and GST and leaving all other taxes as they are, this simple move while repaying Canberra a fair share of 33% of these taxes would give WA a budget of \$25b-\$9b(grants)+A above in pie chart( $\$25b - \$8.3b(33\%)$ )+B ( $\$7.5b - \$2.5(33\%)$ ) +GST( $\$10b - \$3.3b(33\%)$ )= $\$16b + \$16.7b + \$5b + \$6.6b$ =around \$44.4billion dollar or nearly \$20billion extra to bring down income tax in WA by 15%, set up a special dollar for dollar fund recovery for WA Super lost over East(x)!***

(x) - If our major banks are claiming that they are short of funds and needs to raise money to satisfy a 7% deposit guarantee while able to use the money multiplier effect(Google Steve Keen Money Multiplier Business Spectator) and the massive cushion of Australians \$2trillion of super funds, where are these moneys gone, did I miss something!, something very big must have disappeared in the Bermuda triangle over East, even bigger than the \$150b or \$250b missing in the revenue, even a selection of our most economic analphabet politicians should ask, yes banks do not keep money under the bed but with the money multiplier principle applied by the banks and a whopping \$2trillion of super, why do you have to raise money to reach a 7% reserve? Hummm, can you smell a rat or a punzi?

#### **What about WA voters?**

*With \$20billion of extra revenue a year, in addition to free university in WA, surely WA could develop seriously its potential in research, in mining down processing and other tech developments while dropping income tax by 15% and proposing a new Corporate tax in the future of 10% to lure Corps away from the East Coast Bermuda triangle after future negotiations and installing further a new tax system.*

*These \$20billion a year extra would enable to create fairer less household means tested real "insurance" systems for unemployment and pensions similar to France and Germany and independent of the budget, abandoned by the Menzies liberal. With such extra revenue WA could afford a level of social services making it impossible for any WA voters to resist.*

**It does not imply that the State will leave the Commonwealth system, no, just a reminder, that when it comes to looking after all taxes as the Federal Treasurer suggested in the TWP it must really include looking after all taxes, and including mixing the collection of them, who collects what, that is:**

If we are not happy with the Commonwealth distributing GST or collecting Income tax, we do have the right to change this gentlemen agreement which has not been amended in the Constitution, and therefore that does not mean WA living the Australian Commonwealth at all, nor a referendum to amend the constitution, given that our constitution has never been amended at the first place about State Versus Commonwealth funding arrangements.

**It is for the Commonwealth to propose an amendment, currently the States do not need any, specially if it is for the Commonwealth to discharge its own liabilities and living the States paying their debt to promote the health of Bankers and Sundowners on the East Coast.**

But before entering into any further negotiation and attempt to nailing down this point, preparing scenario A and B is a must, no matter what the future looks like, State or Federal, anything less would undermine the capacity of our State to survive and while it is likely that the role of the State will change in the future, it could even undermine the survival of any State entity that could be left.

Whether the role of the States is changed like in Canada, or the vertical imbalance is solved in the benefits of all Stakeholders or the High Court suddenly declare that States are now liable for their debt and/or can file for bankruptcy... our State will need a proper estimate to where it stands financially, should any scenario unfold, together with an assessment of the State capacity to carry the planned changes which may be suggested from either side ie: does the States has the instruments and institutions including personnel expertise in place to implement any change on its own.

**3 - However there are many reasons that should make us happy in Australia of sharing in the future a common currency with real full fiscal integration...unlike the Greek fiasco and the PIIGS fiasco locked inside the Eurozone Common currency without fiscal integration, a common currency with real fiscal integration is a must in the modern global economy and we should all prefer this outcome by all means to any scenario that has been mentioned previously as long as the State debt is also re-integrated.**

**But unfortunately**, one day, a bizarre Liberal and Federal treasurer thought that letting States be rated by rating agencies and take loans on their own terms without having the capacity to ever repay them on their own or having a State Development Product was the right thing to do, and this introduced a virus in the system that makes that goal of fiscal integration far far more difficult today.

The same former treasurer was sent to Queensland to solve Queensland debt problem by offering privatisations and sale of assets, and things got even worst, **the same is in Store in WA with absurd Ports sale and Perth freight link and joint Canberra and State bad planning for such WA infrastructures!**

The whole State planning is now a real mess outside Canberra and the East Coast triangle and States are in limbo on the way to a different unknown role or extinction, will it be like the Canadian System or a US style system or something else. Before getting to anywhere it is now becoming clear that **rating agencies should stop rating our States because our States cannot file for bankruptcy...at least until now!**

## **Conclusion:**

May be it is time to stop the rot or the rort to put it straight, because over East the hole in the revenue is going to become bigger and bigger and bigger if treasury keep talking about useless things without ever addressing the fundamentals, while the RBA has now run its course on monetary policy, no change in interest rate will fix anything anymore and our currency is back to fluctuating in song with commodity prices. Our Household debt to income ratio is the highest in the world and world QE is becoming more risky by the day, if new working hands are not find in the developing world to absorb inflation, like it currently does, inflation will come back to hit us like a brick, so lets have a clear picture of these two scenarios mentioned before a potential GFC 2.0 hits us, because lets not forget that BIS has not fixed the Banking regulations regarding Derivatives since the Glass-Steagall was dropped, and this is not mentioning the NonBanks or Private Equity Funds saga such as Banksia or Babcock Brown downunder!

*It is criminal to increase further the debt of the WA State from its current level without some form of repayment plan and a consultative WA State bi-partisan approach for a mandate first.*

*Such consultation should be supported with information to make decisions too, with quantified scenarios.*

## **Warning :**

*Basically our single currency and fiscal integration and a different role for the States with a single judiciary, a single tax system would achieve a far better result and growth for our nation than the sort of never ending discussions we are currently embarking on, with TWP et al, and for WA, before getting there, one has to take on board local and state debts and quantify potential scenarios even if States become obsolete.*

*People should ask who was behind the retention of our colonial currency, behind rating States with SDP, behind States disintegration with the GST, behind super loopholes tearing it apart, and behind passing the buck to the States. On the other hand who was behind our market currency, our \$2t super that feeds the market loop and preference for a central integrated fiscal system and GST, thank you Paul and friends. Why these elementary liberal concepts of market economy have eluded the coalition is questionable.*

Both sides of politics have their demons and small print legalmentarians. Trottskyst greens are blinded by the kingdom of political correctness. We have wars and tensions created by manufacturing consent in the media. But before all, we were lucky our independents have restrained successfully the lies from both side in the house these last couple of years, some in the coalition would not mind getting rid off independents by changing the voting system, the same ones that cannot face a president elected by people. Our WA opposition is very short on alternative funding arrangements despite complaining about the WA debt. Both side of politics are very very poor on policies regarding growth and progressive retirement and even the new NXT party is better but still short on detail and the critical aspect of progressive retirement, remember to vote!

### Concluding on a positive note:

The only sort of comfort we have after this sober dressing down of our political apparachuks is that with \$5trillion of credit outstanding, see ABS figures here after, the debt of the States represents only 5% of it and the one of the Commonwealth only 10%.

Our Australian household and mortgages represent nearly half of the \$5trillion, we also have an equivalent amount of Super funds \$2trillion which returned on APRA funds alone about \$100billion last year only but is it as safely kept as it looks or has it becomes another punzi ready for another Menzies like re-appropriation into the budget lines!

The difference between Average and Median retirement income is about 25% and represented by voluntary contributions, and makes for a large part the Super Taxation loopholes, neither helping the Australian jobs nor helping our younger generation trying to put a roof over its head.

So yes, it is a bit rich for the Commonwealth treasury to suggest that WA should fix its affairs and revenue first, the whole truth is that it is simply resulting from a Federal lack of discipline to put the Commonwealth treasury house in order and a lack of expertise to collect this Commonwealth massive missing revenue of between \$150billion and \$250billion a year, but however small is \$36billion in the context of the Commonwealth(0.5% of the credit market outstanding below), for the WA one million households it is a lot, and now is the time to express it at the ballot box.

Do not expect major parties, specially in Canberra to bring about the sort of changes required to move to fiscal integration and beyond the current role of the States which are becoming obsolete in their current form, and do not expect change to our Premiers begging bowl approach to Canberra discussions, given no amendment in the Constitution will satisfy voters with the soap opera in Canberra, so the circus will go on, and the bi-partisan Commonwealth vs States funding agenda will continue to milk WA and other States for its own federal revenue shortcomings representing today a quarter of the federal budget revenue and tomorrow nearly half if nothing is done, but one day...

DECEMBER KEY FIGURES (ABS)		
Credit market outstandings at end	at end	
	Dec Qtr 2013	Mar Qtr 2014
NON-FINANCIAL DOMESTIC SECTORS	\$b	\$b
Non-financial corporations		
Investment funds	187.8	196.2
Other private	2 338.2	2 338.3
National public	2.4	2.0
State and local public	108.7	111.5
General government		
National	325.5	342.1
State and local	145.0	142.6
Households	1 766.6	1 798.6
<b>Total</b>	<b>4 874.1</b>	<b>4 931.3</b>