

## **BUDGET CUTS — EFFECT ON JOBS AND CORE SERVICES**

*Motion*

Wednesday 9 September 2009

**DR M.D. NAHAN (Riverton)** [6.44 pm]: I want to make some comments about the various issues raised in this debate, starting with one the member for West Swan raised that I found strange. She referred to budget cuts to core services, but then focused mainly on the removal or reduction in the subsidy for conversion to liquefied petroleum gas. That is instructive because it shows that the opposition has its core wrong.

It also highlights, as she should know as a former Treasury economist and as an adviser to successive Premiers that governments have to be very careful when they establish subsidies.

The history of this issue is that the Howard government put in the subsidy at a federal level at about \$2 000 in the early part of this decade, and that government did it for about three reasons. One was to encourage self-sufficiency in fuel—not a bad idea.

**Ms R. Saffioti:** You're wrong; it was 2006.

**Dr M.D. NAHAN:** Just give me time.

**Mr D.A. Templeman:** We'll give you time, because you're not talking sense!

**Dr M.D. NAHAN:** Oh yeah!

Several members interjected.

**The SPEAKER:** Members!

**Dr M.D. NAHAN:** Another reason it was put in was to reduce emissions. There was also pressure on prices rising at the time. Given that LPG does not attract excise, it is cheaper to use; therefore, the impact of a rise in fuel prices on those who took up the subsidy was minimised. In the 1990s, as the member for West Swan said, the Court government also put in a subsidy. The Carpenter government then raised the subsidy for conversion to \$1,000. There was, therefore, in 2006 a \$3,000 subsidy to convert to LPG. The price of conversion varied from car to car anywhere from \$2,500 to \$4,500; in other words, the subsidy for onversion sometimes exceeded the cost of conversion. Who benefits in those circumstances?

Several members interjected.

**Dr M.D. NAHAN:** What happened when there was a huge subsidy like that? The price of the conversion skyrocketed. That is what happened. People went out and bought parts. The subsidy was huge. People turned up in large volumes for the conversion and the cost of conversion skyrocketed.

Then in 2007-08 there was a rumour that the commonwealth government looked at these levels of subsidy and said that they were excessive, particularly considering the differential. Given that there was no excise on LPG, people who used a non-LPG vehicle had to pay 38c a litre excise. For someone travelling in the vehicle for 38,000 kilometres a year, the conversion gave a benefit of \$2,100 a year.

There was therefore a built-in subsidy already in the excise. There was therefore an excessive level of \$3,000 up-front in state and federal subsidies and then another \$2,100 subsidy a year for the use of the vehicle. The Rudd government, therefore, quite rationally decided that the subsidy was excessive. What did it do? It did two things.

First, it reduced the subsidy for conversion from \$2,000 to \$1,750 and phased it down over four years to \$1,000.

In other words, the Rudd government announced and put in place a 50 per cent reduction in the conversion subsidy. Why did it do that? It did that because it was not a core service. What did this government look at? This government looked at it and said that it was not core, and it cut the subsidy. The member for West Swan is an experienced economist and should know that when she looks at data, she should compare trends. She compared a very large reduction in the number of conversions last year.

Why was there a large reduction in the number of conversions? Because people heard the rumour that the Rudd government was intending to cut the subsidy by 50 per cent, and people rushed in to try to get their vehicles converted before it happened.

**Ms R. Saffioti:** Have you got the monthly data there?

**Dr M.D. NAHAN:** Yes. People knew that the subsidy was unsustainable and excessive, and they knew that a good thing could not last forever and that it would be cut. That was the reason for the large number of conversions last year and the reason for the reduction this year.

The real issue, however, is why the member for West Swan thinks that to give a nearly 100 per cent subsidy for conversion to liquefied petroleum gas is a core service. Her reasoning is that there are a number of people in her electorate who run businesses and use the subsidies to convert vehicles; they, of course, are the major beneficiaries of these conversions. I think the Liberal-National government looked at this issue and decided that because it was non-core there had to be a cut to this massive subsidy, particularly since the Rudd government was doing the same thing, as were all other state and territory governments.

**Mr P. Papalia:** The Treasurer said he didn't expect the Rudd government to cut it.

**Dr M.D. NAHAN:** There were already rumours about it.

**Mr P. Papalia:** In his response by way of interjection earlier on, the Treasurer said he did not expect the Rudd government to cut it.

**Dr M.D. NAHAN:** I do not know what he said, but it was quite clear that the rumour was that it would be cut.

The Howard government implemented a tax review, which is being further investigated by the Rudd government through the Henry tax review. Part of that review's terms of reference is to consider that the Rudd government considers that the conversion subsidy was excessive, and it actually plans to increase the excise on LPG.

**Ms R. Saffioti** interjected.

**Dr M.D. NAHAN:** No, it is still there.

**Ms R. Saffioti:** You are saying it is subject to the Henry tax review.

**Dr M.D. NAHAN:** Yes, but it is still on the books to increase the subsidy in 2011 by 2.5c a litre, thereby increasing the excise on LPG to 12.5 per cent in 2015. The state government has been accused of viciously cutting core services because it is changing the subsidy on LPG conversion, but look at what the Rudd Labor government has done. It has cut the subsidy by half, thereby cutting core services—to use the member for West Swan's words—and it is increasing the excise sharply, therefore cutting core services. What is the Rudd government's real rationale for doing this? It is that there are tough fiscal times out there, and obviously giving huge levels of subsidies for LPG conversions is not a core service; other priorities have to be focused on—strange.

**Mr D.A. Templeman:** There are more question marks in this speech than there have been in any other I have ever heard! You were born with a question mark!

**Dr M.D. NAHAN:** Does the member for Mandurah think giving \$3 000 subsidies to a conversion that costs \$2 500 is a core service?

Several members interjected.

**The SPEAKER:** Order, members!

**Dr K.D. Hames:** What member for Mandurah? I can't see the member for Mandurah!

**Mr D.A. Templeman:** No, I am hiding.

**Dr M.D. NAHAN:** He is hiding!

**The SPEAKER:** Members might not necessarily agree with or like what the member for Riverton is saying —

**Mr A.J. Carpenter:** We like it all right!

**The SPEAKER:** Some of you do like it; some of you do not. I would like to hear the member for Riverton in silence. I formally call the members for Mandurah and West Swan for the second time. If the member for Riverton takes an interjection, that is fine, but it is not an opportunity for everybody in this place—particularly those on my left—to continually interject and talk over the top of the member whilst he is speaking. The member for Riverton has the call.

**Dr M.D. NAHAN:** In conclusion, providing subsidies for LPG conversions is not a core service; members who think it is have a warped sense of what is core. A whole range of issues out there have to be confronted, some of which have been raised by other members, and rightly so.

One issue that has been raised tangentially is that of this government's and the former government's contributions to resources development, the backbone of this state. It is true that under the previous government the economy experienced the largest boom in its history since probably the gold rush of the early part of the nineteenth century. I think the data shows that it was probably larger. It was an important period and it laid the foundation for future growth. It was a difficult time for any state government to manage because costs were skyrocketing. About two years ago I remember Chip Goodyear, the then chief executive officer of BHP, saying that Western Australia was the most expensive place in the world to build a large mine. That was quite a statement, given that our economy is based on building large mines. That also contributed to cost blowouts in the state government's capital works program because there was a limited workforce and a limited number of construction firms, and it was hard to restrain costs.

**Mr A.J. Carpenter:** And the costs of steel and other inputs escalated.

**Dr M.D. NAHAN:** All costs, from inputs to labour, skyrocketed; in fact a legitimate debate was raised about holding back capital works. As Chip Goodyear once said, "If I add a project to one mine, all it does is double the price of a BHP project somewhere else."

**Mr A.J. Carpenter:** Thankfully the state government was a lot more successful in its projects than BHP.

**Dr M.D. NAHAN:** Yes, somewhat. BHP did some good work and took some risks on projects.

**Mr A.J. Carpenter:** Took some risks? They took \$6 billion worth of risks!

**The SPEAKER:** Order, members!

**Dr M.D. NAHAN:** That is what the private sector does. It takes risks. If people do not like it, they will suffer the consequences of it.

**Mr A.J. Carpenter:** Yes, and the shareholders suffer the consequences big time.

**Dr M.D. NAHAN:** BHP shareholders have done very well indeed by taking risks because some of them are paying off. Look at the share price.

**Mr A.J. Carpenter:** It's \$36 when it should be \$70!

**Dr M.D. NAHAN:** When the Gallop government came to power, it very wisely implemented a review of the approvals process, headed by Michael Keating, a former head of the Department of the Prime Minister and Cabinet under various Prime Ministers. It was a very timely, effective and thorough review that was supplemented with reviews on native title, the environment and whatnot. It would have helped if, in 2001, before the boom, its recommendations had been implemented. The government recognised that the report recommended a whole range of institutional changes, then the boom hit and unfortunately the good intentions and arguments of the Keating report simply were not followed through effectively. Western Australia's rating as a place to invest, in terms of its regulatory structure, dropped. Yes, it had huge resources, high prices, a good labour force and some infrastructure that could be built on, but the trouble was that the red tape was growing and was inhibiting developments from being undertaken, and also significantly increasing the costs.

**Mr A.J. Carpenter:** Member, please take into consideration the volume of approvals that were being sought; it was massive.

**Dr M.D. NAHAN:** I have no doubt that there was a very rapid growth in projects and the rate of exploration was picking up. It would have been a push for any government to cope with it. But subsequent reviews of the state have shown that if the Keating recommendations had been implemented on the ground in the institutions that he had advised, the former government would have coped better. It was always going to be a struggle to cope with the boom at the time; I will not argue otherwise.

Several members interjected.

**Dr M.D. NAHAN:** In addition, there were issues of quality and staffing. The bureaucracies in the departments that were making planning decisions were denuded because a large volume of people left to work in the private sector. But the fact of the matter is that the Keating recommendations were not implemented and increasing red tape held back firms from carrying through with developments. There is no doubt about that. States such as Queensland experienced a boom, but according to the Fraser Institute and other assessors of the relative prospectivity in terms of approval rating, Western Australia went from near the top in 2001 to the bottom in 2006-07.

**Mr A.J. Carpenter:** There can be no comparison to Queensland. The expansion in Western Australia dwarfed that in Queensland. The volume in Queensland increased, but not the number of approvals being sought.

**Dr M.D. NAHAN:** Queensland was undertaking a similar level of growth to Western Australia, and it also had other problems.

Several members interjected.

**Dr M.D. NAHAN:** A lot of the Queensland developments were closer to the more populated and difficult-to-develop areas, yet it had a similar level of development to that in Western Australia. The simple fact of the matter is that Queensland and South Australia were better able to cope with the boom than Western Australia was.

**Mr M. McGowan:** South Australia?

**Dr M.D. NAHAN:** Yes.

Several members interjected.

**The SPEAKER:** Order, members!

**Dr M.D. NAHAN:** Roxby Downs was one of the largest developments in Australian history.