

STATE BUDGET 2010–11 — COSTS AND ESTIMATES

Motion

5 May 2010

DR M.D. NAHAN (Riverton) [5.13 pm]: One would usually think that the second budget for a government would be an easier one than the previous one. We have gone through a global financial crisis; the economy is on recovery, particularly in Western Australia; and business confidence is up. However, when we look around, we can see that the threats are there worse than ever before. What are the reasons? Look back a few months. What are the biggest threats? They all come from Canberra. We had lost almost 30 per cent of the goods and services tax. Why do we not lose it? The Premier was the only leader of the States and Territories who said no.

Mr E.S. Ripper: I understand the Premier's argument that the GST should be a tied grant rather than withheld by the commonwealth. I can see that argument but I wonder what is the gain in autonomy for Western Australia.

Dr M.D. NAHAN: No; what it basically said is that there was an agreement on the GST, and that it would be earmarked in full to the states and distributed through the Commonwealth Grants Commission. It was not an agreement that the commonwealth could rip up willy-nilly and take whatever it wanted. Once it has done that, Gillard has been looking at funding education and doing the same thing. Last week there was a brainwave from Canberra that the commonwealth government would take all our royalty revenue—\$2.5 billion—and it would spend it on itself. It might give some back, but it did not say how it would give it back. The commonwealth government did not say that the money was going to the Commonwealth Grants Commission; and if it were, we would be getting 68c out of a dollar; it simply said that it was taking it from us. It did not even come to us and asked us what would be the implication of that. It did not debate or discuss; it just said that it was going to take it. The Premier said no. He has asked members opposite a couple of times: what would they do about 30 per cent of the GST revenue being held, and would they have caved in? There has been deathly quiet from the other side, because they would have caved in.

Mr E.S. Ripper: Do you want me to talk about that?

Dr M.D. NAHAN: Later, sure.

Mr E.S. Ripper: What I have said —

Dr M.D. NAHAN: I said later.

The second question was on the resource super profits tax. Members opposite were asked today what they would do, and they were quiet. They did not want to go into detail. The reason they would have given in is that they said our resource rent tax, which is being Labor policy 30 years, is a good idea and that they just want to fiddle about with the discount rate. In the Labor Party at the time under Burke, there was a year's review of all royalties. I was the bureaucrat in charge of it. It actually looked at whether we should put a resource rent tax on.

Mr E.S. Ripper: What was the answer?

Dr M.D. NAHAN: No.

Mr E.S. Ripper: Why was that?

Dr M.D. NAHAN: It was because they did not want to cause sovereign risk to the most important sector in the economy.

Mr E.S. Ripper: What about the question of tax design?

Dr M.D. NAHAN: Thirty years on they decided. There is another issue that we have to deal with, and it is called the Rudd slide. If members have looked at the markets lately, they will see that Mr Rudd in his genius has come out and kicked the guts out of the one sector that pulled the nation through the GFC.

Mr C.J. Barnett: And the one state.

Dr M.D. NAHAN: And one state that pulled the nation through the GFC. He kicked the guts out of them without debating with them adequately and without giving any details of how it would work out. His timing could not be worse. Portugal is about ready to fall over and there are questions of growth in China. He came and kicked the guts out of the mining sector and precipitated the collapse of the stock market. This disaster is going to affect us, not immediately, but if he puts this tax in place, there will be a decline in investment in our driving sector. Eventually, when it starts to decline if he puts the tax in place, he will come around and say that the commonwealth had this resource super profits tax and now it will put pressure on us to steal our royalty revenue from us. These are huge threats going forward for the state.

There is another threat, which the Leader of the Opposition quite rightly mentioned, and that is the steady decline in our share of GST revenue.

Mr E.S. Ripper: Member, would you not agree that we already do not keep very much of royalties—not that I support anyone stealing our royalties? Are they not already equalised away?

Dr M.D. NAHAN: They do get equalised through the grants commission process, but it takes time.

Mr E.S. Ripper: It does take time, so you get a benefit.

Dr M.D. NAHAN: There is a benefit, particularly when government is trying to budget over the four years of the forward estimates. Also, not all of it gets clawed back, although a lot of it does.

This budget faces a large number of threats from Canberra. The way Kevin Rudd is going, he must be the most capitalist Prime Minister in history! He has turned pink batts into a deadly weapon. How does he do that? He kicks the guts out of the one sector and the one state that drove him through the global financial crisis. It is mind boggling. In each case, when the Prime Minister comes up with one of these screwy ideas, who stood up to him? Was it Mr Brumby? He stands up and says, "I've got a plan. I am going to fight!" And he caves in.

Mr F.M. Logan: He got \$800 million!

Dr M.D. NAHAN: Each one of them caved in. A Premier who can be bought! That is how members opposite treat being in government: give them a bit of money and be the usual type of Premier—do not get between a premier and a bucket of money! Is that how members opposite are going to do it? That is what Labor has done; it is traditional. Put a bit of money there and Labor Premiers follow it like a dog. That is not how to run a state for the long term. Members opposite might do it, but that is not how it is done.

What has been the track record of the Barnett government to date on fiscal policy? That is what this debate is about, and it is about what will happen in a few weeks. Whether members opposite like it or not, we came into government during a period of unprecedented wealth in the state. There was a huge surplus—a \$2.5 billion surplus—inherited from the previous government, and it was estimated to be \$1.8 billion coming into that first year. Soon after, in September, the global financial crisis hit. That is when Lehman Bros fell over; it was a few weeks after the election. We did come in with expectations of spending a bit, especially for teachers.

We do not stand off from that; and royalties for regions was part of our policy coming into government.. We thought we could do it. That is what we expected and that is what members opposite expected. What happened? During that first year we had a \$1.2 billion drop in royalty revenue and tax revenue. That is what happened. Those are the facts. That is in the budget.

Mr E.S. Ripper: But revenue still rose!

Dr M.D. NAHAN: Revenue rose for one reason. Why did it rise? Again, it was Rudd. As the member for Victoria Park said quite clearly, Rudd did help that year and he stimulated the economy with handouts and pink batts, but he also gave a large amount of money to each of the states, including this state. He gave it in the form of grants. That is why the only source of growth revenue was from Rudd; it was from grants. Each time he gave it, almost without exception, it was as a matching capital grant; that is, he said "I will give you this money, \$100 million, if you spend \$100 million for these reasons." That means money is coming in and money is going out on spending. How did we get the matching grants with a class of revenue? We had to borrow it. But all the borrowing is for capital. There is nothing wrong with borrowing for long-term capital. There never has been! If the deck is stacked up by real quality assets, there is no problem. There is an issue about the extent, but particularly in the worst crisis, as everybody knows, in 30 years that is when one does it. That is why the previous government was squirrelling away money and reducing debt; it was because of the risk of what happened. They were right. The Treasurer at the time was spot on. The Treasurer would have said, "We do not know what is going on, but if we get hit with a whack, which just sometimes happens, we have to have cash to back us up to have a stimulus, particularly in capital." We got hit. We lost our revenue. Rudd borrowed almost like a drunkard—as he had to, to some extent

Mr F.M. Logan: And gave a significant portion to WA. Are you suggesting he should not have done that?

Dr M.D. NAHAN: Members should listen. Parts of it, I thought, were a complete waste, but some of it was quite good. He went too far, but the stimulus money he gave to the state led to our growth in revenue. Take that out and we had a large collapse in revenue flow. Second, it also forced us to borrow. A major source of borrowing and the major reason our borrowings went up was that we had to match Rudd, and we should have matched Rudd.

Mr F.M. Logan: He did not force you to do that. You did not have to take it. Do not say you were forced. You took the money.

Dr M.D. NAHAN: No; we took it willingly, as we should have. It is a matching grant. What happened? We came through that year with a slight surplus. That is pretty good. We came through the GFC with large commitments extending.

Mr P. Papalia: Are you talking about you now, not the state?

Dr M.D. NAHAN: The Barnett government.

Mr P. Papalia: It was false; it was not real.

Dr M.D. NAHAN: It came through with a surplus during the —

Mr P. Papalia: The budget was a fake document.

Dr M.D. NAHAN: The member for Warnbro might wish it to be, but it is not. It was audited according to established accounting process. We came through this with a surplus, whereas what was the budget outcome for our comparable state, Queensland? It was a complete blow-out; it was a \$1.5 billion deficit.

Several members interjected.

Dr M.D. NAHAN: The basic indicators were the collapse of revenue and increase in spending, but we came through with a surplus, and with Rudd's help. We spent huge amounts on capital for things like housing, particularly social housing

Mr P. Papalia: The federal government spent huge amounts.

Dr M.D. NAHAN: No, it was a matching grant. We spent a lot. The state government matched the money from the commonwealth.

Mr P. Papalia interjected.

Dr M.D. NAHAN: No, we matched it. With schools, the federal government committed to a lot and we matched it in part. It was \$150 million.

Several members interjected.

Dr M.D. NAHAN: Yes, we did! Members opposite might not like it, but that is the truth.

Several members interjected.

Dr M.D. NAHAN: Going forward, there has been a huge challenge, which the previous Treasurer has mentioned. The previous Treasurer mentioned repeatedly that we had a real challenge, which is that we inherited a public service that had lost control over wages and expenditure controls. Expenditure in the previous government was running out of control.

Mr P. Papalia: And you constrained expenditure? Have you constrained expenditure in the public sector? Is that what you have done?

Dr M.D. NAHAN: We have in this budget, and the member will see that we had very rapid growth because of our various commitments—royalties for regions and commitments to teachers.

Mr B.S. Wyatt: It has been going for 18 months now.

Dr M.D. NAHAN: Yes. Those are big lump sum expenditures—and to the police. And members opposite can judge us on that, but the clear indication from the monthly statements is that we are finally getting expenditure under control. We have done it, not during periods where we had \$2.5 billion surpluses but during tough times—during difficult times. Members opposite might laugh. That is why they are on the other side of the house. If members opposite think it is easy to control expenditure during the worst fiscal crisis in the state's history and still maintain a budget surplus, they should not be where they are. There are a couple of other issues. One is the utilities—electricity. The former government stated in its budget that it had a pile of liabilities on electricity that it was going to meet. But what members opposite are really saying —

Mr P. Papalia interjected

The DEPUTY SPEAKER: Member for Warnbro, this is becoming a two-way argument across the chamber. Please let the member for Riverton continue.

Mr P. Papalia interjected.

The DEPUTY SPEAKER: Member for Warnbro, I call you for the first time.

Dr M.D. NAHAN: The real choice, if we were to continue with Labor's policy of just funding electricity with taxation, would be to borrow it. Our taxation revenue dropped, as did our royalty revenue and the only way we could have funded it on the never-never was in fact through borrowing. I think I heard the member for Victoria Park railing against debt. What we did was take the honest and appropriate policy of saying that we are not going to continue the subsidy. At that time, if members remember, the world was going to adopt a carbon price and we were going to have an emissions trading scheme that was supposed to be pricing carbon energy properly. And here we were subsidising energy! Madness! What we did was more rapidly increase the price of energy to the market price.

It should have been done a long time ago.

Mr E.S. Ripper: Do you know what upsets me? Before the election, you campaigned against those increases. You ran radio advertisements during the election campaign against electricity price increases.

Dr M.D. NAHAN: If the opposition is worried about charges to household and taxes—I heard the member for Victoria Park rail against high taxes—it is really saying that we should fund subsidised electricity by hitting payroll tax and tax on jobs.

Mr R.H. Cook: What did you tell the people of Riverton before the election?

Dr M.D. NAHAN: I told them the truth.

Mr R.H. Cook: Did you say that you would increase their electricity charges?

Dr M.D. NAHAN: I told them that —

Mr R.H. Cook: Did you say that at any stage during the campaign?

Several members interjected.

The DEPUTY SPEAKER: Members!

Dr M.D. NAHAN: The opposition does not want to hear an answer.

I had the privilege of writing newspaper articles and I wrote extensively on this issue. I stated quite honestly—many people of Riverton read it—that there was a huge liability out there that the former government was going to put on the never–never and put on taxes to try to hide it from people.

Several members interjected.

The DEPUTY SPEAKER: Order, members!

Dr M.D. NAHAN: They could find it if they read the budget papers!

Mr F.M. Logan: Oh, rubbish!

Mr E.S. Ripper: We put it in press releases!

Dr M.D. NAHAN: Most people had no idea that they would have to pay for it through higher electricity fees eventually; that is the truth!

[Member's time extended.]

Several members interjected.

Point of Order

Mr C.J. BARNETT: Just for clarification, the member for Riverton is our lead speaker.

Debate Resumed

The DEPUTY SPEAKER: Member for Riverton, continue.

Mr E.S. Ripper: Not the Treasurer?

Mr C.J. Barnett: No.

Mr P. Papalia: He's afraid to speak!

Mr C.J. Barnett: He's got an hour.

Dr M.D. NAHAN: We have made electricity charges transparent. We have paid for it directly and we have told people what the electricity prices are, and we have overcome the failure of the previous government to be honest.

Point of Order

Mr J.C. KOBELKE: The Premier has indicated that the member on his feet is the lead speaker, and we have accepted that, but the clock has been set and I do not think that time is correct. He should have had 60 minutes and he has already spoken for 20 minutes. He was given 20 minutes and he had spoken for nearly the whole of the 20 minutes, and if that is taken off the 60 minutes, there should not be 47 minutes on the clock, I put it to you, Mr Deputy Speaker.

Ms M.M. Quirk: It should be 43 minutes.

The DEPUTY SPEAKER: That is correct, member for Girrawheen. The clock now reflects 43 minutes and the member for Riverton has the call.

Debate Resumed

Dr M.D. NAHAN: If I referred back to the previous government's last budget, I could name some of the charges that it handed down. Its forecast for the water rate increase was up slightly over nine per cent, which is about same as we have imposed. The member for Victoria Park said, quite rightly, that for many of these charges such as electricity, water and others, we are moving towards a bipartisan effort to give signals of scarcity value.

Mr P. Papalia interjected.

The DEPUTY SPEAKER: Order, member for Warnbro!

Dr M.D. NAHAN: I refer to a bipartisan effort to tell people what the real cost of resources such as coal, gas and water are, and to have the prices reflect the costs. There must be an effort to ensure that they are produced cheaply. When the previous government committed to two desalination projects, the price of water was necessarily going to rise because of the cost of processing of energy. Yes, during the last year or so we have had a move towards real pricing of electricity and real pricing of water, both out of policy and necessity, which, of course, should have happened before.

Several members interjected.

Dr M.D. NAHAN: I turn to the major issue of royalties. This state is wealthy and vibrant and has the highest prospects for growth of any region or state or territory in the nation by reason of our mining, oil and gas sectors. That has not just come about like manna from heaven. It has been an effort by the private sector, by individuals and by the state going back decades. If members compare Western Australia, and Australia as a whole, with most resource-rich places around the world, most of them are basket cases to some extent—namely, Indonesia, Angola, Nigeria and Russia. Western Australia is one of the few places that is not only not a basket case but it is a vibrant, growing nation and area based on resources.

Mr F.M. Logan: That's the state, not the government.

Dr M.D. NAHAN: That is because there has been a long effort at the state and national level to understand the importance of mining and to ensure that our property rights regime and our taxes are open and we avoid unnecessary precipitous changes and imposts on the mining sector. The Burke government looked at this in the 1980s because at that time it was a Labor policy to impose a resource rent tax on the mining sector. They spent a year looking at it and hired a Canadian economist, Craig Emerson, who is a now, I think, the small business minister who was working for Peter Walsh at the time, and he had written his thesis on it. The whole model was written up by Labor's favourite economist, Garnaut, and it was pushed. But when the government of the time looked at it, knowing the importance of the sector, it decided not to impose it. It put a tax on the Barrow Island project, on which, again, I was the bureaucrat in charge of negotiating, but that had a special arrangement—that is, that it was a declining field. Then they put a tax on at a national level, only on offshore oil. But the offshore oil tax was put on for a good reason. When they put that on offshore oil, there were certain special cases.

Australia was the first to move from a system whereby petrol prices were controlled to world parity prices. If they had not moved to world parity prices, there would have been a huge increase in wealth to that sector.

Nevertheless, we now have a huge threat from Prime Minister Kevin Rudd to the basis of the viability of not only the state's revenue but also the vibrancy of the state like never before. It is not just the taking of revenue; it is worse. It is, all of sudden, coming out of the blue and hitting the resources sector—500-odd companies—with a 40 per cent super tax on top of income tax and all other charges. We have never experienced such a destructive proposal. If that tax comes through not only will our future budgets be wrecked, but so will the vibrancy of this state. The only reason that it has not come through is because the Premier stood up and said no. When members opposite were asked today whether they supported it, they did not want to say yes. They were trying to qualify it, particularly the member for Armadale who must be really loving this.

Mr F.M. Logan: Her answer was exactly the same as the Premier's was on radio—exactly the same!

Dr M.D. NAHAN: Members opposite must get a few things straight. Firstly, Rudd is not proposing a royalty. The commonwealth cannot levy a royalty. It is a discriminatory super tax on the vibrant sector of the state. It is a super tax on Western Australia. It is not a royalty; the commonwealth cannot levy royalties. There was a legitimate discussion about changing royalty rates, and it was reasoned and justifiable to have a debate about the royalty rate.

As I understand it, the Premier said that we would not increase the royalty rates. We thought about it, we looked at it and we said no, except for the special tax rates on fines and iron ore. We looked at it, thought about it and said no. It was legitimate to look at that. Look at what Queensland and South Australia did. Under Rudd's regime, there would almost be an incentive to increase the royalty rates like South Australia did because the royalties get reimbursed under Rudd's proposal. South Australia said that it would get in before Rudd and it increased the royalty rates. We did not do that.

Mr F.M. Logan: You should have.

Dr M.D. NAHAN: The member for Cockburn actually stated that we should have raised the royalty rates when we heard that the Rudd government was proposing to implement a discriminatory super tax on Western Australia. The member for Cockburn suggested that we should have increased our royalty rates before the tax came to light.

Mr F.M. Logan: Don't you think we should have increased our royalty rates?

Dr M.D. NAHAN: No.

Mr F.M. Logan: Why?

Dr M.D. NAHAN: Because I do not believe that Rudd's super tax will become law.

Mr F.M. Logan: Don't you think that we should increase royalties?

Dr M.D. NAHAN: No.

Mr F.M. Logan: It is good to have that on the record. Leave it just like that.

Dr M.D. NAHAN: I think that we should increase it for fines.

Several members interjected.

The DEPUTY SPEAKER: Order, members!

Dr M.D. NAHAN: The Premier said that we should look at the issue.

Mr F.M. Logan: Don't you agree that we should increase the royalty rates?

Dr M.D. NAHAN: We should increase the royalty rates on fines for BHP Billiton and Rio Tinto.

Mr F.M. Logan: You never said that. Don't qualify it now.

Dr M.D. NAHAN: We should increase the royalty rates for fines and iron ore.

Mr R.H. Cook: That is not what you said.

Dr M.D. NAHAN: I did.

Mr R.H. Cook: You said that they should not be increased.

Dr M.D. NAHAN: No.

Several members interjected.

The DEPUTY SPEAKER: Order, members!

Dr M.D. NAHAN: The Premier and the government looked at the issue of royalties and decided to not increase them. The South Australian government, which saw that Rudd was going to try to rip off South Australia by imposing a discriminatory super tax on its mining sector, got greedy and pre-emptively increased the royalty rates even before the super tax has become a reality. We have not done that, and nor should we.

Mr E.S. Ripper: That comment will come back to haunt you.

Dr M.D. NAHAN: That is the difference between the Liberal–National government and the Labor Party. There is a principle at stake. The opposition would have just said, "Money!" It is like the 30 per cent of goods and services tax for health. Rudd put a bucket of money in front of the Labor governments and they came running. They were climbing over themselves. They were full of rhetoric, but they went for it because it was easy.

Mr E.S. Ripper: Our Premier said that we would pay an equivalent amount into the hospital pool. In other words, he accepted that the GST would be a tied grant.

Dr M.D. NAHAN: No. He stated that we would put into the pool for hospitals an equivalent amount. The principle was that we would not give up the GST and allow Rudd to rip up the GST agreement.

Mr E.S. Ripper: That is an acceptance that the GST, rather than being a general credit, would be a tied grant.

Dr M.D. NAHAN: The GST would flow into the state's coffers and an agreed sum equivalent to the GST that we pay, which I understand is more for health than the 30 per cent GST, would be put into the pool to fund hospitals. That is what Brumby had proposed too, but he walked away from it. The principle was to preserve the financial foundations of the state. Members opposite know that for the past 70 years there has been a steady encroachment on the fiscal viability and independence of the states.

Mr E.S. Ripper: I am concerned about that.

Dr M.D. NAHAN: The Leader of the Opposition should be concerned. We have reached the point at which we are under threat. If we had lost 30 per cent of the GST and set a precedent for the federal government to do it again, we might as well have turned off the lights here because we would be a local government. Ken Henry proposed, and assumed without discussion, as I understand it, that the states would give up their royalties. Victoria and Tasmania do not care because they do not get any royalties and Queensland is in debt, besides which it is a Labor government. If we had lost \$2.5 billion or more in royalty revenues on top of the 30 per cent GST, we would be unviable. We would not be able to run most of our activities.

The real question would then be whether the state was a useful entity anymore given that its financial independence would be the equivalent of a medium-sized city council. That is what is at threat. Many people in the Labor Party have grown up with the view that the states are not necessary.

Mr E.S. Ripper: Not in the Western Australian Labor Party.

Dr M.D. NAHAN: I am talking about Labor generally. Many people in the Labor Party, particularly in the eastern states, which is fair enough, are of the view that the states are no longer an essential element of democracy and that we can do without them. They believe that we should change from having a centralised government to having a bunch of local governments. That is what will happen if we do not stand up for certain principles. Those principles are that our resource base, which is based on the GST, and our royalty revenues should remain with us. This is serious. These things often go in cycles. When I look at our fiscal issue and relative performance, the question that comes to my mind is what would the Labor Party have done if it were in government now, God help us? It would have caved in on the 30 per cent of GST for health and on the royalty revenue, just like its mates in the other states did.

Mr E.S. Ripper: Is this all over or are you going to eventually reach a deal with the federal government?

Mr C.J. Barnett: On which part?

Mr E.S. Ripper: On health. Will it stay like it is or will you reach some sort of agreement?

Mr C.J. Barnett: We will not reach an agreement on the GST.

Mr E.S. Ripper: But are you expecting an agreement of some sort?

Mr C.J. Barnett: On health, but not on the GST.

The DEPUTY SPEAKER: Order, members!

Dr M.D. NAHAN: As the Leader of the Opposition has stated, and as we all know, there is a long-term issue; that is, we need to renegotiate and get a different arrangement regarding the GST allocation by the Commonwealth Grants Commission. As I understand it, that arrangement might change because of the decline in the royalty revenues and the decline in the mining sector —

Mr E.S. Ripper: Once they get us to zero, there will be nothing more to take.

Dr M.D. NAHAN: As I understand it, we are on a trajectory to getting back through the GST just 55 or so per cent of our GST revenue for each dollar that we pay. If that is the case, we need to show some leadership and change that. In the first term of the Gallop government, the then Treasurer worked with the Victorian and New South Wales governments in an effort to renegotiate that agreement but when the Commonwealth Grants Commission process changed, the Treasurer went a bit quiet because the government got more money, if I remember correctly. I might be wrong, but that was my interpretation.

Mr E.S. Ripper: There were a couple of consolation prizes available.

Dr M.D. NAHAN: But they were short-term. Getting back to the budget, this government has faced major fundamental changes, one of which was the global financial crises. Let us not underestimate that. Rudd helped us through it. There is no doubt about that. However, Rudd's help led to rises in revenue because the payments came but this government has faced the largest drop in its own source of revenue in decades.

Rather miraculously, we came through that with a budget surplus. What really counts here is that the objective of the previous budget was to use the budget sector to cushion the effect of the global financial crisis to a limited extent—we cannot do much—by focusing on spending capital to keep people in jobs and to keep businesses going and business confidence up. Surveys done by the Chamber of Commerce and Industry and other groups show that Western Australia did that better than any other state. Levels of business confidence and levels of investment in Western Australia are near the top. That is the bottom line.

Mr F.M. Logan: But unemployment has increased.

Dr M.D. NAHAN: Unemployment is low. It is a difficult one. Even though we did not get hit as badly as others, the member for Cockburn should know that, particularly, in his own sector—the metal bashers' sector—many people got hit. When the GFC hit, the member for Cockburn's sector was really hit.

Mr F.M. Logan: Unemployment in the southern suburbs has doubled since November.

Dr M.D. NAHAN: I know. On aggregate, the GFC was not as bad as we expected. But certain sectors in Western Australia, particularly the metal fabricators, were hit big time. All of a sudden, I think around December 2008, many fabrication shops lost all their forward jobs and construction people were laid off. Looking back, we can easily forget about that. It was a supportive budget, in a minor way, by spending on capital works and by giving a positive outlook to the mining sector. Another sector that was hit badly was exploration, but the federal government provided stimulus assistance for exploration. It was spot on. That is what governments do. Bookings for drilling rigs went from being overbooked to being underbooked. That is what has come through and the bottom line is: yes our debt has gone up, but what has it been spent on? Capital. Was the capital spending worthwhile? Yes; it was spent on schools and houses. Did it stimulate the economy and keep it growing? Yes, it did.

When we looked at the major threats to the economy, we would have hoped that the economy would pick up with the amount of stamp duty, payroll tax, GST and mining royalties coming in. We could have been doing what the previous government was able to do. Royalty revenues would have flowed in and we could have started paying off debt, put more capital works in certain places and done other things. We could have improved the state's fiscal position, although that would depend very much on the mineral sector. We could have looked forward to large increases in royalty revenue despite the dollar being high. The expectation is for a 90 to 100 per cent increase in iron ore royalties. We should be able to look to the forward estimates and expect things to improve. However, the biggest threat to that is not the collapse in China or problems in Portugal; the real threat to that is Rudd. It is a real and phenomenal threat, probably even worse than the GFC. More importantly, it is completely and utterly unnecessary. That is our challenge going forward.

Our debt is high. Over the decades I have participated in the large level of debate about debt. Debt is not the highest by share of GST, but in the 1990s when it was higher, the real problem was that a good deal of it was spent on recurrent revenue. This was not the case this time. All the debt has been incurred through capital expenditure, properly so, and properly accounted for. That puts us in good stead. One of our greatest challenges is that, as the previous Treasurer stated repeatedly in this house, after four or five years of huge growth, the public sector got used to large pay packets. To some extent, that was necessary because it had to compete with the booming mining sector. There has been growth in wages and growth in numbers and, I believe from the evidence, lack of drive for efficiency. During opulent times when money flows in, almost without asking for it, even if the Treasurer is trying to protect the keys to the vault, it is hard to hold back and say no, especially if departments blow the budget and incur large losses and get more money.

One of the biggest challenges which the previous Treasurer had—I think it will be his legacy—and on which he worked diligently during very difficult times was the implementation of stringencies and reforms in the public sector. He did that at the same time large pay increases were being given to teachers, which was appropriate, and to the police and others. He did that when there was not very much money to go around for other purposes and when we were trying to focus on not so much stimulating the economy by spending more in the public sector but, indeed, capital expenditure. I trust we will see the signs of this in the next budget. As the member for Victoria Park said, expenditure has been high; we have had a big level of expenditure to swallow. Some of the expenditure the member for Victoria Park said was due to this government was actually commonwealth money coming through. If we strip out the commonwealth money during 2008–09, expenditure growth in Western Australia was only about 6.1 per cent, on par with the level of expenditure growth of the last budget brought down by the Labor government. That was despite swallowing the need for a large amount of additional expenditure. In his own way, the previous Treasurer worked diligently, sometimes behind the scenes and some times openly, expressing to anyone who would listen the need to drive reform and modernisation of the public sector. That initiative will emerge as his legacy. If we look around, one of the biggest residual reforms needed in the public sector is not cuts, but efficiency, and that is what the previous Treasurer started to consider. It is easy in this house to flail away at people using easy figures. The former Labor Treasurer will know how difficult it is.

Mr P. Papalia: He was good at it.

Dr M.D. NAHAN: Yes, but in the end he failed. He had a large amount of money. He saved a bit and brought down debt, but, in the end, his colleagues let him down. They allowed the health budget and the arena and other capital works budgets to blow out. That is what happened.

Mr P. Papalia: He doubled the metropolitan rail system in one day.

Dr M.D. NAHAN: He doubled the metropolitan rail system in one day?

Mr P. Papalia: The metropolitan rail system doubled in one day.

Dr M.D. NAHAN: That was when it opened, but how many days did it take to build? I can double anything if I open one building at a time. That is a ridiculous thing to say. The previous Treasurer made a huge contribution in his management, and I trust he will again some time in the future. The budget the now Treasurer will bring down will show clear signs of the member for Vasse's efforts.

Again, before I get to him, I would like to reiterate that the real threats of the global financial crisis have not quite subsided yet. There are still warnings out there.

Mr P. Papalia: You're going to use that for a while!

Dr M.D. NAHAN: If the member looks at the markets, we could easily get another drop. Members might not know it but the threats are serious out there. If we get hit again, particularly with the hits to the royalty sector, that is significant. I am confident that the budget will show that we have come through the GFC. We have warded off the Rudd attacks for now, but the threats still remain and we will come through this period in extremely good shape. Labor likes to brag about how large their budget surpluses were —

Mr E.S. Ripper: No; we do not like to brag about that.

Dr M.D. NAHAN: It is true. But it was easy—you brought down the budget and royalty revenues flew up and GST increased. Conveyancing revenue poured in.

Mr E.S. Ripper: No budget is ever easy.

Dr M.D. NAHAN: It just poured in. Members opposite didn't know what to do with it.

Mr P. Papalia: That is something you've never done.

Dr M.D. NAHAN: No. I've never been a Treasurer; that's true. I have watched but I've never been a Treasurer.

Mr P. Papalia: I don't think you're going to be one. I'd like to see you as one.

Dr M.D. NAHAN: So would I!

Several members interjected.

Dr M.D. NAHAN: The Premier is not here yet!

It is easy. Members opposite know it is. What counts is how one performs during the difficult times. That is what counts.

Mr E.S. Ripper: Do you think it was always easy? Do you remember 2001? It wasn't easy in 2001.

Dr M.D. NAHAN: No; I remember 2001 very well. The economy was in recession. That is debateable. Revenue was very slow.

Mr P. Papalia: So the Liberal Party put it in recession?

Dr M.D. NAHAN: No, we didn't put it in recession.

Several members interjected.

Dr M.D. NAHAN: I did not say Labor created the GFC. In 2001, as the former Treasurer knows, the bottom fell out of the commodity markets. Oil was \$13 a barrel. The Labor government came in on a commitment to try to rein in the budget deficit. It did that by various means including raising taxes, if I remember correctly. It also proposed a very high super tax on housing, which it abandoned. I think the same thing was proposed in New South Wales. It was a good thing that it did not do that.

Mr E.S. Ripper: It was implemented in New South Wales. It did not fly in WA.

Dr M.D. NAHAN: They put it on in New South Wales but they took it off in a year. When Labor came in, it inherited a budget deficit. It decreased the deficit largely by increasing taxes. Over time, it put some efficiency drives in —

Ms R. Saffioti: As opposed to what you guys are doing.

Dr M.D. NAHAN: No. We did not raise taxes anywhere near like members opposite did.

Several members interjected.

Dr M.D. NAHAN: We postponed some. We had some tax cuts but nothing like Labor did in 2001. It is a simple fact. The former Treasurer raised it—that is a simple fact. Labor philosophy is not low tax.

Mr B.S. Wyatt: Neither is the member for Cottesloe's.

Dr M.D. NAHAN: Let us see. When the Labor Party inherited power in 2001, WA was the lowest tax state in the country, except for Queensland. Labor came in in 2001, during difficult times, and solved that problem to some extent by taxation.

Several members interjected.

Dr M.D. NAHAN: The electorates of Western Australia, like most electorates in Australia, are very adroit. Electors look at relative Labor, Liberals and Nationals—usually a combination in Western Australia—and ask: for the times, who was best? They looked at us in 2008, and members opposite, and they said "time for a change".

Several members interjected.

Dr M.D. NAHAN: The electors said it was time for a change. One reason—the Labor government received huge revenue inflows, a \$2.5 billion surplus, and did not do enough with it. That little advertisement we put out, we remember that quite clearly: Name three things that Labor did. When it was opened up, it was empty! Not only did people read it, they thought it was hilarious. They also knew that there was a large amount of excessive expenditure on things like arenas. The previous Labor government did not do anything. It is not because it did not promise things—Carps the builder was out spruiking everything—but it did not deliver.

Mr P. Papalia: Those two desalination plants you talked about earlier didn't get done.

Dr M.D. NAHAN: One has not been built yet.

Several members interjected.

Dr M.D. NAHAN: The railway was actually committed to by the previous government. Members opposite did something in eight years—I hope so.

Mr P. Papalia: You just said we didn't do anything!

Dr M.D. NAHAN: No; that your government did not do enough.

Several members interjected.

Dr M.D. NAHAN: I kind of like members opposite not agreeing with me. I like them not recognising why they are over there! If they do not recognise why they lost, that keeps us here. In order to overcome failure, they have got to recognise why they got there.

Ms R. Saffioti: This is better comedy than *Seinfeld*!

Dr M.D. NAHAN: You had a chance in a century and you blew it.

Mr M.P. Murray: Oh, for goodness sake. Make him a minister—please!

Dr M.D. NAHAN: We will not do that. When this government came into power, we thought we were going to have the wealth but it collapsed. We have done a remarkable job.

Mr A.P. O'Gorman: Can you do this?

Dr M.D. NAHAN: Is that the member's party trick?

Mr A.P. O'Gorman: That is you patting your own back! What a load of rubbish.

Dr M.D. NAHAN: If the member does not believe it, do not believe it. I like it. If members do not know why they are over there, that is all the more for us. It is a simple fact. Why is the business sector so positive after getting hit by the global financial crisis in Western Australia? It is quiet! The reason is that the state in part has been well managed. We have not panicked, like Queensland did, spending on everything and blowing the budget. They privatised Queensland Rail. They went out in desperate times and privatised monopolies. We have not privatised anything.

Several members interjected.

Dr M.D. NAHAN: Public-private partnerships are a Labor Party invention. They are so far out that they are still in the socialist era. We have gone out slowly and steadily and managed through the GFC. We saw the real threats of loss of about 30 per cent of our GST and royalties. We said no.

Mr B.S. Wyatt: What did you say?

Dr M.D. NAHAN: We said no to the loss of the GST. The mob opposite would have said, "Take it. Come in and take! Gimme \$100 million, gimme \$1 billion, you can take it." They would have said, "Take the GST. We don't need it." They would have said to Rudd, "Take the hospitals. We're not competent." That is what they would have done.

Mr P. Papalia: You are telling us what we would have said. We know what your Premier said! He signed up to the GST agreement.

Dr M.D. NAHAN: No, he did not. The Court government did.

Mr E.S. Ripper: Richard did.

Several members interjected.

Dr M.D. NAHAN: The issue is not the GST. The issue is: do you allow Rudd to unilaterally rip up the GST agreement? That is the issue. We said no. All other Labor Premiers and Chief Ministers said, "Yes; come take it. We don't want it. We're incompetent. We don't want the hospitals. We're incompetent. Take it." The Premier is the only person who stood up and said no. I did not hear the Leader of the Opposition —

Mr P. Papalia: What did he say no to?

Dr M.D. NAHAN: He said no to Rudd taking 30 per cent of the GST.

Mr P. Papalia: For what?

Dr M.D. NAHAN: For hospitals.

Mr P. Papalia: What did he say earlier on tonight?

Dr M.D. NAHAN: He said no to the 30 per cent take.

Mr P. Papalia: He said it's not over yet and he is going to make an agreement. He is going to make an agreement.

Dr M.D. NAHAN: I think that the member has been under water too long. He has a real hearing problem! Maybe it is some disconnect.

Mr B.S. Wyatt: That is the former Treasurer!

Dr M.D. NAHAN: He said that there would be, hopefully, a deal on hospitals but he said no to the goods and services tax take. That is the issue. There was a big bucket of money offered and the Premier said no; whereas all the other Labor people ran for the money. They will rue the day they ever did it. The biggest threat, of course, is our royalty rates. Those guys opposite have to make up their mind, especially the member for Armadale.

Mr P. Papalia: You are in government; you have to make up your mind.

Dr M.D. NAHAN: No. The people of Western Australia will hold Labor members accountable for their stance on Rudd's big super profit tax.

Mr P. Papalia: They'll hold the government accountable.

Dr M.D. NAHAN: We say no. What do members opposite say?

Mr E.S. Ripper: That's because you want to grab the money yourselves!

Dr M.D. NAHAN: No. We are not going to impose a 40 per cent super royalty on the mining sector; do not be absurd.

Mr D.A. Templeman interjected.

Mr C.J. Barnett: You would have caved in if you lived in Tasmania.

Dr M.D. NAHAN: Yes, they would have; they would have just given it away. Of course Tasmania has very little royalty revenue. We have \$2.5 billion, and the future of the state is dependent upon it.

Mr P. Papalia interjected.

Dr M.D. NAHAN: The member for Warnbro was babbling the other day when he asked the Premier: do you want the \$5 billion in infrastructure expenditure that Rudd has offered?

Mr P. Papalia: No, I didn't.

Dr M.D. NAHAN: The member for Warnbro did. It is actually \$700 million.

Mr P. Papalia: That must be the other member for Warnbro, because it's not in *Hansard*. It must be some other member for Warnbro.

Dr M.D. NAHAN: It is \$700 million; and yes, he is offering baubles.

Mr P. Papalia: Don't put words in my mouth. You know I didn't say that.

Dr M.D. NAHAN: He is offering little inducements to give away Western Australia's future.

Mr P. Papalia: Can you point to where in *Hansard* I said that?

Dr M.D. NAHAN: I will look for it. The member for Warnbro clearly asked the Premier: do want part of the infrastructure handout? And it is \$700 million. By asking that of the Premier, the member for Warnbro was stating essentially that he would have accepted the super tax. Would the member for Warnbro have accepted it? He is going to have to answer this.

Mr P. Papalia: Don't say what we would have done.

Dr M.D. NAHAN: Answer: would the member for Warnbro have accepted it?

Mr P. Papalia: The Premier signed up to this current GST rate.

Dr M.D. NAHAN: No; would the member for Warnbro have accepted it? Does the member for Warnbro accept Rudd's tax grab?

Several members interjected.

Dr M.D. NAHAN: There is quiet! Does the member for Warnbro accept it? For the first time in the past 56 minutes there is quiet when I asked him, yes or no, whether he agrees to Rudd's super tax. If he does, he should be quiet about the budget, because Rudd's super tax guts it.

Mr M.P. Murray: Could we have an extension, please!

Dr M.D. NAHAN: Ha, ha! If we accept the super tax, how are we going to make forward estimates when the tax is supposed to come in 2012? There are going to be huge impacts on royalty revenue going forward.

Several members interjected.

Mr P. Papalia: Do you have ambitions for federal government or something?

Dr M.D. NAHAN: No. I am talking about Western Australia. There is an issue of interaction between governments.

Mr P. Papalia: Talk about the household costs in Western Australia and what you have done to them.

Dr M.D. NAHAN: I know this is a bit complex for the member for Warnbro. Speak surer!

Mr P. Papalia: Talk about what you've done to the budgets of Western Australians.

The ACTING SPEAKER: Member for Warnbro!

Dr M.D. NAHAN: Rudd has proposed to take away from Western Australia \$2.5 billion in revenue.

Several members interjected.

Dr M.D. NAHAN: Rudd is proposing to impose a huge tax on our major economy, our major businesses. Is the member for Warnbro not worried about that?

Mr P. Papalia: Were you envious because you weren't at the dinner with the Premier and his good friend? Is that what this is all about?

Mr D.A. Templeman interjected.

Dr M.D. NAHAN: I was. The member for Mandurah and I did a little act together, a vaudevillian act!

Several members interjected.

Dr M.D. NAHAN: A good question. In the end we stood up to the major threats.

Mr P. Papalia: What major threats? Were you at the Alamo or something?

Dr M.D. NAHAN: Does the member for Warnbro not think that a 30 per cent loss of GST revenue is a threat to this state?

Mr P. Papalia: You were saved by the federal government.

Dr M.D. NAHAN: Does the member for Warnbro think that a 30 per cent loss of GST revenue is a threat?

Mr P. Papalia: Of course it is.

Dr M.D. NAHAN: Of course; okay. That is what the Premier stood up to.

Mr P. Papalia: What did we do in government? You haven't done any more than we did. You just complained about it too.

Mr D.A. Templeman: You owe me 59 minutes of my life! I can't believe you have done that.

Dr M.D. NAHAN: The member for Mandurah could leave the chamber.

Several members interjected.

Dr M.D. NAHAN: In a couple of weeks I am sure the member for Warnbro will find something to babble on about, but in reality he will look at that and say —

Mr P. Papalia: Fifty-nine minutes; I can't believe it!

Dr M.D. NAHAN: He will say, "Oh my God, they did it, they pulled us through the global financial crisis. They have started controlling expenditure. They have stimulated the economy. Debt is up but it was spent for good purposes and they made the budget more honest and transparent, particularly with electricity charges and it sets us up well for another term and most importantly we stood up to Rudd."