HANSARD 15 SEPTEMBER 2010

SELECT COMMITTEE INTO STATE DEBT

Establishment — Motion

DR M.D. NAHAN (Riverton) [6.43 pm]: I would like to make some comments on this issue and speak against the motion.

Mr B.S. Wyatt: Could I just confirm that you are the lead speaker?

Dr M.D. NAHAN: Yes, I am the lead speaker. I will start by congratulating the member for Victoria Park. The level of debt and growth is an issue. More importantly, although I do not accept all his arguments, and I will counter them, he presented them in a positive manner.

Mr B.S. Wyatt: Can I say, member for Riverton, deliberately so, because the issues the Premier raised in an identical motion in 1991 are just as relevant today.

Dr M.D. NAHAN: I counter that. Along with the Leader of the Opposition, I was also involved in that debate, although not in this house. I remember it very clearly, not only the level of debt but also some changes that have taken place since then that charged, in part, the need for a select committee and also the need to ensure that transparency of the conditions are much more open than they were back in 1991.

The facts of the matter, as the member presented, is that debt has grown quite significantly, to about $20 billion in the total public sector, including about $6 billion for the general government sector. They are the facts. They are the estimates in the budget papers. We cannot argue about that. We can argue about whether we hit it or whether it changed. Those forward estimates are always open to substantial changes. We could look at the commonwealth's books. As the member for Victoria Park says, every time the commonwealth government looks at it—I think three times over the past four months—it changes dramatically. The world is an uncertain place.

I would like to add that in the last budget—the 2008–09 budget of the Labor government—the then government also forecast that total public sector spending would grow to $11.4 billion in the year 2011–12, which was the end of the forward estimates of that time. It was going to grow substantially under the previous Labor government. In that budget the government also forecast an average of $1.2 billion surpluses over that period. It was forecasting very large increases in debt—a 300 per cent increase in debt—in the context of very expected, very robust periods and very large general government surpluses, as I said, averaging $1.2 billion over the four years of the forward estimates.

Mr B.S. Wyatt: I just missed that bit. The $1.2 billion was the surplus position.

Dr M.D. NAHAN: That is what was expected under the forward estimates.

Mr E.S. Ripper: Member, if you go to the pre-election financial projections statement, which was the last document, it sets the scene, and the maximum debt forecast was $9 billion.

Dr M.D. NAHAN: I am just going by the budget papers. I did not look at the pre-election forecast. The former government had forecast a very large increase in debt, about $5 billion less than what we forecast, which was about $17 billion, but it had very large expectations of underlying surpluses. What was the debt used for? It was used in full—this is very important when we compare it with 1991—for assets, largely for revenue-earning assets.

The $7.6 billion asset program of last year was made up of the following: $1.1 billion for electricity; $1 billion for schools, a large amount of which was the commonwealth's Building the Education Revolution program, which I will get to later; $1 billion for water, largely the residual for the desalination plant, which will earn some money, and it was a long served asset; $890 million for health; $683 million for housing, some of which is revenue earning but it is very much needed; $516 million for roads; and $416 million for bridges. On top of that, we have City Link, Fremantle port and the rail to Butler.

This is a very large capital works program that is used for productive long-term assets. As members opposite have said repeatedly, there is nothing wrong with debt if it is used for long-term assets. It is particularly important in a state like Western Australia that has huge infrastructure needs. No-one would argue with that. Indeed, over the past year, before the run-up to the budget and after the budget, when members opposite had a chance to talk about the budgetary needs that were relevant in their local communities, they never failed to say that they needed more—more roads, more schools and all sorts of things.

There is a huge capital need, more than we can afford. I know the opposition does not like to admit it but the global financial crisis did lead to a sharp downturn in our own sourced revenue. The commonwealth government—rightly, to some extent; I would argue it overdid it, but nonetheless as the central government is want to do, it acts as the swing factor—came in with a very large stimulus program that injected huge amounts of money into the Western Australian budget. One thing about the commonwealth is that it spends about zero directly on capital. It appropriately provides grants to the states to undertake that capital. It committed $1.3 billion to the Western Australian government to partially fund its capital works program.

A large amount of that capital program and that large increase in debt that was referred to was driven by countercyclical behaviour by the commonwealth. Even though it put money in, it required the states to match it to various degrees. One of the reasons we undertook that very large increase in debt over recent times was in fact in concert with the commonwealth to undertake a stimulus program to counteract the decrease in private sector demand.
It was not just demand at that time; there was a very large drop in a lot of capital works programs around the state. One of the problems the Leader of the Opposition knows well from his time as Treasurer is that one of the problems during the boom times was just trying to get capital works done on budget because of rapid growth in costs. In fact, costs were out of control because BHP, Rio Tinto and other mining firms were absorbing all the labour.

Mr E.S. Ripper: We were no different from any other proponent.

Dr M.D. NAHAN: I am not saying that.

Mr E.S. Ripper: Except perhaps that we did not have the full project management expertise available to us that they might have had.

Dr M.D. NAHAN: Yes, I will go through that. But what I am saying is when there is a downturn and everything else is slow, that is the time to build capital. That is what we have done. How are we going to get that capital? Yes, we can get grants from the commonwealth; we have to borrow for the rest of it. It is long-term assets.
What is the difference between now and 1991? The fundamental difference is chalk and cheese. First, it was 20 years ago. If we look at the data back then and compare debt—which was low if we look at it in dollars of the day—in 1992 the total public sector debt was $8.4 billion. That is equivalent to 20 per cent of gross state product. Today in 2011, that $15 billion is equivalent to 8.4 per cent of GSP, which is less than half. On our estimates it will peak at 8.9 per cent; less than half.

Mr B.S. Wyatt: 8.9—what debt measurement is the member using there?

Dr M.D. NAHAN: Total public sector. It is the $20 billion that the member referred to.

Mr B.S. Wyatt: Obviously I am using a different measurement of what the GSP is. I have got it out at 10.6 per cent.

Dr M.D. NAHAN: No.

Mr B.S. Wyatt: Where did the member use the GSP figure from?

Dr M.D. NAHAN: Treasury provided this to me.

Mr B.S. Wyatt: I am using ABS to factor it into the budget.

Dr M.D. NAHAN: This is an inconsistent framework. We can get data from this but we cannot use the consolidated revenue data.

Mr B.S. Wyatt: Yes; we have had that discussion.

Dr M.D. NAHAN: It peaked as a percentage of GSP in 1992. The year after the member for Cottesloe made that speech, it peaked at 20 per cent. There were a couple of other reasons that was a frightening figure. One, part of it was used at that time for recurrent purposes. We had very poor estimates at that time. It was before accrual accounting came in. We had no idea what the repair and maintenance bill was—it was not in the budget. Capital was treated separately. We could not separate how much went to repair and maintenance and how much went to capital. Subsequent analysis came out that a sizeable proportion of that borrowing was used to meet recurrent purposes. As the Leader of the Opposition made clear, that is a no-no—one does not borrow to meet today's expenses.

Mr B.S. Wyatt: I think everybody accepts that.

Dr M.D. NAHAN: Okay; but I am comparing today with 1991. My point is: what is the difference between now and 1991? What is the difference between the member's proposal and the Premier's proposal of 1991? First, the debt levels as a percentage of GSP were much higher; second, a large amount of the debt was used for recurrent purposes—a sizeable portion, not a large amount; and, third, the amount of the interest that is covered, or how much of the debt is used, is different. I think the member said today it was less than 2.5 per cent.

Mr B.S. Wyatt: Yes, but there is the same issue about CRF.

Dr M.D. NAHAN: I have access to Treasury documents—it was over eight per cent.

Mr B.S. Wyatt: Sorry; over eight per cent of? Is the member doing the comparison of general government revenue now?

Dr M.D. NAHAN: No; this is total public sector. I will give the member the figures. I will show the member what the share of debt is. I will get to that when I find it. I have the same problem the member does—too many pieces of paper! The net interest today is about 2.5 per cent. That is in the budget. In 1992 it was about eight per cent.

Mr B.S. Wyatt: Is that a direct comparison? Can we actually compare that?

Dr M.D. NAHAN: Yes. Eight per cent back then; 2.5 per cent today.

Mr B.S. Wyatt: I want to make the comparison clear. We had a discussion earlier about CRF comparison, but does that factors that into account?

Dr M.D. NAHAN: Yes.

Mr B.S. Wyatt: Is it an apple-for-apple comparison?

Dr M.D. NAHAN: Yes, it is. The books back then, as the Leader of the Opposition will know well, were a mess in their lack of consistency and treatment. A large amount of the expenditure was off-budget. We have significantly improved the transparency of our accounts since then. It is one reason things have changed.

The member raised another point; that is, we in Western Australia, as in Queensland, historically have been concerned about levels of debt and focused on international issues. We have been drawing in large recipients of foreign investment. We continue to do so. One of the hallmarks of Queensland was that it had a sterling set of accounts for years. Indeed, until recently, even before the Leader of the Opposition was the Treasurer, we had negative net debt.

In the general government sector the debt minus our assets was negative. Queensland has had that for decades. Queensland has been very focused on debt levels for years. Things changed dramatically in this period of time; dramatically indeed. By all measures Queensland's debt has blown out. In 2012–13 our debt will be in the vicinity of $20 billion, as the member said. In Queensland it will be nearly $50 billion. Queensland got hit with two whammies: firstly the global financial crisis, which led the government to try to stimulate the economy with capital works; and, secondly, it had all that money invested in the stock market when it went down. Their assets had less and less value.

Anyway, the net debt level of the total public sector in Queensland is shockingly higher than ours, by any measures whatsoever. When we look at what they are in other states—I think I am looking at Queensland's budget paper again—by all measures general government projected net debt per capita as of the end of June this year in WA is supposed to be 1 252; Victoria 2 091; New South Wales 1 900 —

Mr B.S. Wyatt: In respect of that Queensland figure, does the member have the figure when Queensland net debt peaks?

Dr M.D. NAHAN: No; it is growing throughout the forward estimates.

Mr B.S. Wyatt: It continues on the upward trend?

Dr M.D. NAHAN: Yes. It is growing about 10 per cent a year. If we take it on net debt per capita, we are the lowest outside Tasmania. I get to Tasmania. If we look at projected ratio financial assets versus financial liabilities, that includes superannuation. Western Australia is clearly again, outside Tasmania, the best off. If we look at projected per capita net worth—that is, what do we use these things for and how many assets we have per capita in the public sector—Western Australia is clearly the highest, with $50 000 worth of public sector net assets per capita versus Victoria of $20 000.

Our net asset base in the public sector is twice as high as the net asset base in Victoria, New South Wales and South Australia and significantly higher than in Queensland. What is my point here? My point is twofold: first, we are in a far superior fiscal position than other states; and, second, we have a good set of data on our debt levels and debt exposure positions. We have a high degree of transparency on these things. Also, 1991 was a different world from today in terms of what we know about the budget, the level of debt per capita and other measurements and our ability to afford that, but, more importantly, in 1991 we did not know what actually took place. There is no comparison. The member also raised the issue of Abbott's $100 million a day or a month, was it?

Mr M. McGowan: A day.

Dr M.D. NAHAN: There is one reason: that was said in the heat of an election campaign! Generally the significant thing at the commonwealth level was that when the Rudd government came into power, it had a public sector surplus.