

## **The Davidson-Novak report is a shoddy and unprofessional piece of work**

The Tasmanian Chamber of Commerce and Industry's wish to promote discussion of the kind of reforms needed to improve Tasmania's economic performance is both timely and commendable. Unfortunately, that objective has been extremely badly served by the report which the TCCI commissioned from Sinclair Davidson and Julie Novak.

The Davidson-Novak report reflects outdated assumptions and prejudices about Tasmania, ignores virtually everything which has happened since the mid-1990s, makes egregious errors with regard to elementary and basic facts, displays staggering ignorance of the basis on which the Commonwealth Grants Commission makes its recommendations for the distribution of GST revenues among the States and Territories, hands ammunition to the Governments of New South Wales and Victoria who wish to increase their share of GST revenues at Tasmania's expense, and – in the unlikely event that its recommendations were taken seriously – would inevitably lead to the TCCI's members facing sharply higher State taxes.

The Davidson-Novak report in fact does little more than regurgitate the assertions and prejudices set out by Jeffrey Rae in an article published in the *Institute of Public Affairs Review* in September 2002. Rae was at least willing to concede, in that article, that 'The Tasmanian Government is making serious attempts to turn around the State's dismal economic performance' and had 'made progress on addressing some of the fundamental causes of the 'Tasmanian problem'' (as Rae called it).

Professor Davidson and Ms Novak aren't even prepared to do that. Instead, they assert that 'GDP per capita for Australia has grown faster than Tasmanian GSP (gross State product) per capita', that Tasmania's growth rate has 'kept pace with South Australia but has otherwise lagged far behind the other States and Territories', and that 'the gap between Tasmania and the mainland has widened'. These assertions are simply – as Commonwealth Treasury Secretary Ken Henry would put it – W R O N G with an exclamation mark.

Over the five years to 2006-07, Tasmania's real per capita GSP has grown at an average annual rate of 2.3% - well above the mainland average of 1.9% per annum, equal to Queensland's and exceeded only by Western Australia's. As a result, Tasmania's per capita GSP has risen from 77.3% of the mainland average in 2000-01 to 85.4% in 2006-07 (2007-08 data will be released later this month). The only way that Professor Davidson and Ms Novak could have reached the conclusions which they did is by looking at the data upside-down.

Professor Davidson and Ms Novak, like Jeffery Rae in his 2002 article, seek to make much of the fact that the Tasmanian Government receives more revenue from its share of the GST than it does from State taxes, and assert that this makes Tasmanians 'mendicants'. Tasmania's share of GST revenues results from two basic facts established annually by the Commonwealth Grants Commission – first, that Tasmania's capacity to raise revenue from the taxes and charges which States are allowed to levy is about two-thirds that of the all-State average (a fact which is apparent from a table presented in Professor Davidson's and Ms Novak's report but whose significance they seem unable to comprehend); and second, that Tasmania needs to spend about 6% per head more than other States and Territories in order to provide public services of the same standard as all States and Territories, on average.

Professor Davidson's and Ms Novak's inability to comprehend the basis for the Grants Commission's calculations is evident in their assertion that Tasmania's State taxes are 'top heavy', when the only table which they present in their report actually shows that Tasmania's per capita State tax collections are actually 4.5% *below* the average for all States and Territories after taking account of Tasmania's below-average revenue-raising capacity.

Intentionally or otherwise, the TCCI has handed ammunition to the Treasuries of New South Wales and Victoria for their long-standing campaign to have the GST revenues distributed on an 'equal per capita' basis rather than in accordance with the Grants Commission's recommendations. They can now point to a report sponsored by Tasmania's peak business organization as apparently endorsing their case.

In fact – although Professor Davidson and Ms Novak make no acknowledgement of it – Tasmania's share of the GST revenues has fallen from 4.5% in 1999-2000 (the first year of the GST) to 3.8% in the current financial year, fundamentally reflecting the relative improvement in Tasmania's economic performance over the decade to date.

But in the unlikely event that the Davidson-Novak report were to be taken seriously as a basis for decision-making by any Government, an immediate move to an equal per capita distribution of GST revenues would see the Tasmanian Government deprived of around \$670mn (based on the proposed distribution for 2008-09), a sum equivalent to about one-sixth of its total revenues.

The only way in which such a loss of revenues could be absorbed without massive cuts to spending on schools, hospitals, police and so on would be huge increases in State taxes, the majority of which are paid by businesses – that is, by the TCCI's members.

There is, of course, much more that remains to be done if the gaps which do remain between the living standards of Tasmanians and those of other Australians are to be narrowed – including, in particular, the need to improve the educational attainments of Tasmanian students and adults. The TCCI has, to its credit, been at the forefront of efforts in this regard. There is also a case for reform of Tasmania's taxation system, which the TCCI has been supporting.

But the TCCI's efforts to generate a groundswell of public and political support for economic and social reform has been set back by commissioning and publishing such a sloppy and amateurish piece of work. The sooner they disown it, the less the damage done to the TCCI's – and the Tasmanian community's – ultimate objectives.

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