

WORKING TITLE: Subsidies ate the boom

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The iron ore price is well above its long term average. Indeed, at \$US50 per tonne it is well above the \$US36 price that Wayne Swan inherited in 2007. Blaming the iron ore price for Western Australia's budgetary woes is like blaming the sinking of the Titanic on the iceberg. Yes, it's a factor, and yes, it's a problem, but it's easily avoided with a little bit of preparation.

Watching the state Premiers squabble about the distribution of the GST is like watching children squabble over a smaller than expected inheritance. Amazingly, Western Australia didn't even manage a budget surplus when the boom was in full swing.

Political leaders have a habit of exaggerating the benefits of the mining industry on their economies and budgets. Former Queensland premier Campbell Newman said "We are in the coal business. If you want decent hospitals, schools and police on the beat we all need to understand that." Aspiring Deputy Prime Minister Barnaby Joyce explains that "we really have a very simple business plan – we survive on the charges we raise to allow people to dig up black rocks and red rocks: coal and iron ore."

In reality Australian budgets no more 'survive' on mining royalties than the carbon price drove the price of a leg of lamb to \$100. In fact, all of the taxes paid by all of the miners to all of our governments accounts for around 5 per cent of government revenue in 2013-14. And that was before the recent falls in commodity prices.

So how could WA manage to make it through a once in a century commodity price spike and still not manage to deliver a surplus? Easy. They spent a fortune subsidising the mining industry.

Just last year the WA Treasury wrote to the commonwealth to explain how expensive it was to host the mining industry. Among other gems they wrote that "the cost of Western Australia's assistance to the North West Shelf project (e.g. payment of subsidies to the State's power utility to help cover the losses it initially incurred under crucial 'take or pay' gas contracts) is estimated to be around \$8 billion."

The WA Treasury goes on to criticise the Commonwealth Grants Commission for dividing up the GST revenues between states on the basis that "it fails to equalise many State expenditures that support resource development, particularly provision of infrastructure". They openly describe government decisions to pay for much of the mining industry's infrastructure as "a significant subsidy cost".

The WA government has spent a fortune subsidising some of the world's biggest companies in the middle of a mining boom. Their own state budget papers show the cost to be around \$6.2 billion over the past 6 years and their own Treasury calls such payments a subsidy.

WA's tantrum at COAG, combined with Tony Abbott's tenuous grip on power, has reportedly delivered a \$600 million windfall to Western Australia. Just imagine if Jay Wetherill or Daniel Andrews spent a few billion dollars subsidising the car industry. Would their industry policy decisions be cross-subsidised by the other states, or by the Commonwealth?

The temporary revenue boost from the mining boom allowed Peter Costello and Colin Barnett to conceal the long run costs of their worst decisions. Costello responded to a short term boost in company tax revenues by introducing permanent cuts to tax on capital gains, superannuation and personal income. Colin Barnett shovelled billions of taxpayers' dollars into mining infrastructure that optimistic miners should have funded themselves.

It is not the collapse of the mining boom that has 'broken' state and federal governments; it was the inability of those who claim to 'manage' our finances to see that what goes up, must come down.

But while our budgets can be easily repaired by ending the mining subsidies and closing the tax loopholes Peter Costello wove into our tax system, our system of federation may be harder to fix. The mining boom has highlighted the greed of some of our state siblings, and in turn the mining boom has probably made it harder to get them to work together in the future.

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