

PROJECT WESTERN AUSTRALIA

A Growth and Productivity Agenda
for the Next Government

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Mannkal Economic Education Foundation
Institute of Public Affairs

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Contents

Preface: An agenda for our next state government	ix
About the authors	x
Setting the Scene	1
General recommendations	
Conduct an audit of government involvement in the economy	12
Good economic policy is good social policy	14
Secure and protect property rights	17
Build capacity to expand micro-economic reform options	20
Repeal and limit the growth of legislation	23
Review inefficient state taxes	25
Improve transparency of government	28
Review the largess of the Royalties for Regions program	30
Work with the Commonwealth Government	33
Portfolio recommendations	
Create real water markets	36
Maintain momentum for reform of electricity markets	39
Reform industrial relations	41
Improve health policy	44
Promote effective aid for individuals with disabilities	47
Review social housing policy	49
Improving housing affordability	51
Review metropolitan public transport	53
Speed up port reform	55
Expand school choice	57
Reduce limits on freedom of speech	59
Review local government policy	61
Reconsider taxi regulation	63
Speed up the granting of liquor licenses	65
Continue deregulation of shopping hours	67
Limit and remove regulation	68
References	70

An agenda for our next state government

Nobel Laureate (1969) Paul Samuelson was once challenged by the mathematician Stanislaw Ulam to ‘name me one proposition in all of the social sciences which is both true and non-trivial.’ It was several years later that he thought of the correct response: comparative advantage. ‘That it is logically true need not be argued before a mathematician; that it is not trivial is attested by the thousands of important and intelligent men who have never been able to grasp the doctrine for themselves or to believe it after it was explained to them.’¹

After so many years of talk about Western Australia’s ‘potential’, we are sensing that our State now has an opportunity to step forward and seize our comparative advantage. As never before in our State’s history have our political leaders had such an opportunity to magnify our short and long term outcomes.

To contribute to this debate, the Mannkal Foundation and the Institute of Public Affairs have enlisted many informed commentators and brought together this document with the hope that these issues and alternatives will be seriously considered and even implemented.

We hope the ensuing discussion will bring forth even better solutions, for the benefit of all Western Australians.

Ron Manners
Chairman
Mannkal Economic Education Foundation

About the authors

John Hyde held the Federal seat of Moore from 1974, when Whitlam was Prime Minister, until he lost the seat with the defeat of the Fraser Government in 1983. John and his wife, Helen, then formed the Australian Institute of Public Policy, which in 1991 was amalgamated with the Institute of Public Affairs, which he directed until 1995. He was a columnist with the *Australian Financial Review*, *The Australian* and the Brisbane *Courier-Mail*, writing 745 regular articles for these papers, and has had many other articles published elsewhere. Hyde was born and educated in Western Australia before farming wheat and sheep at Dalwallinu. A successful farmer, he was a councilor and deputy-President of the Shire of Dalwallinu before entering federal parliament. With three other MPs he formed 'the Dries' which were then a backbench group which advocated economic rectitude and soundness in public finances and rejected short-term populism. John Hyde's book *Dry: In Defence of Economic Freedom* is an account of how the momentary re-application of the proper conduct of public policy in Australia during the 1990s managed to reverse the long downward trend of Australia's relative living standards.

Andrew Pickford is based in Perth, Western Australia and works in the area of policy and strategy across a range of institutions, industries and governments. He has particular expertise in the electricity sector, strategy formulation, scenario-based planning and Indo-Pacific security issues. Mr Pickford is the inaugural ISSA Indo-Pacific Managing Director, a strategic think-tank focusing on the Indian Ocean region and energy security. He also holds a number of other positions including Senior Fellow, Mannkal Economic Foundation; Senior Fellow, International Strategic Studies Association; and is currently a Center for Strategic and International Studies-Pacific Forum Young Leader. In 2012, he was selected as a delegate to participate in the inaugural conference of Australia India Youth Dialogue in India and remains active in this organisation.

Setting the Scene

Beware of vision

Politics is a strong and slow boring of hard boards. It takes both passion and perspective. Certainly all historical experience confirms the truth—that man would not have attained the possible unless time and again he had reached out for the impossible. But to do that a man must be a leader, and not only a leader but a hero as well, in a very sober sense of the word. And even those who are neither leaders nor heroes must arm themselves with that steadfastness of heart which can brave even the crumbling of all hopes. This is necessary right now, or else men will not be able to attain even that which is possible today.

—Max Weber

The next Western Australian government will make a series of decisions about the future of the state. These decisions will determine the extent to which the state becomes reliant on transient mineral and energy prices, or offers wider opportunities for businesses and entrepreneurs to flourish. Despite current optimistic growth forecasts for Western Australia based around the success of its resource sector, mining booms inevitably lead to busts—or at least corrections.

PROJECT WESTERN AUSTRALIA

The need for sound economic reform never ends and now is the best opportunity the State is likely to enjoy. Economic reform takes time to implement and more time to become effective. Moreover, the political circumstances that facilitate reform are not always present. Current governments, fortunate as they are with abnormally high royalty income, should not expect that future governments will be able to act in similarly good times. Accordingly, the theme of this study is that government should take advantage of current good times to eliminate government debt and raise productivity. While we recognise that no government will have the political or administrative ability to achieve all that we recommend within one parliament, we also consider that no recommendation alone should be beyond its ability.

We build upon existing work of the Institute of Public Affairs and Mannkal Economic Education Foundation. The study is timely, not only in the domestic context, but also because of an international resurgence of Keynesianism, and the fracturing of bi-partisan economic reform and deregulation. We support a Jeffersonian approach of limited government—which does not rely on grand visions by great men—and believe that reform underpinned by this approach would benefit Western Australia. Nevertheless, some of the conclusions of this study will likely be denounced by the left, right or both.

From the birth of the Swan River colony, Western Australian taxpayers have experienced the advantages and pitfalls of politicians' visionary dreams. Some of these visions may have assisted economic growth, such as the Kalgoorlie pipeline, while others, like the Ord River dam, have been a serious drain on the economy. However, the issue is not whether particular developments will eventually become appropriate, but rather whether the resources could have been better employed at the time they were committed. Future benefits should be discounted to estimate present value. While there is argument about the appropriate discount rate, it should not be too far removed from the rate of return that the private

SETTING THE SCENE

sector expects before it commits capital. Less-than-optimal capital expenditure today comes at cost to future prosperity.

Governments' records when picking winners either by direct investment or by directing private capital expenditure are poor. Deprived of market discipline and influenced by political considerations, adequate evaluation of alternatives foregone is difficult and almost never made public. Even the best intentions are insufficient. History is filled with examples where governments exceeded their traditional role and cost the public exorbitant amounts. For instance the calls by Premier Barnett to restrict the flexibility of the Woodside and joint venture partners, and involvement in the marginally profitable Wittenoom asbestos mine, may achieve or have achieved intended goals but raise the serious questions as to how the resources could have been better applied.² If history has one lesson for the development of Western Australia, it is that through government assisting everybody equally, by providing a flexible and competitive investment and work environments, the entire State economy booms.

Nevertheless, political leaders should still lead. They should have a clear and achievable idea of the type of society they want future West Australians to inherit, and they should articulate this vision. Liberal societies with strong but limited government that allow their citizens considerable freedom of choice have, the world over, progressed far more than those that have enforced detailed plans, preferred certain people or industries at the expense of others, or, like modern Greece, yielded to popular demands affordable in only the short-term. The law, as well as society's non-legislated institutions, should permit diversity and allow retreat from ideas that don't work out as planned at minimum cost. When governments try to regulate outcomes rather than processes, they tend to fail. Moreover, when governments attempt too many goals, they fail to achieve the important ones and inhibit private achievers. Politicians rarely know people's interests better than they know these themselves.

PROJECT WESTERN AUSTRALIA

When preparing this study, it was proposed to us that a state government should ensure that future industry has access to an adequate workforce, energy, water and transport services. The government is already involved in each of these areas with a far from unblemished record. Consequently, there may be much to gain by: getting the pricing right; expanding facilities to meet demand and closing those where demand is inadequate; enforcing efficiencies in state owned enterprises; and removing barriers to private competition.

Many public investments do yield social as well as private benefits and it is appropriate to include these in every calculation. However, many benefits that are deemed 'social' are in fact mainly private benefits, which people could be asked to pay for. Train rides and education for instance, yield social benefits but the gains are mostly private and can be marketed. It is unlikely that trains and buses, which recoup only about 20 per cent of their running cost, have sufficient social benefit to justify so much social cost.³ The capital costs of existing services are, of course, sunk and should be ignored, although the same does not apply for any new investments.

Reform is always difficult. For those who are benefiting from the current high prices from minerals and energy, it may seem like a cleaning job which can be pushed back to a later date. However, consider Australia without the reforms of the Hawke/Keating era and ask whether the 1930s might not have been more easily managed without much of the development and debt of the Collier and Mitchell governments in the 1920s and 1930s. Although there were many reasons not to act and the adjustments created winners and losers, the Hawke/Keating reforms were nonetheless debated and implemented. Importantly, those had bipartisan support, a circumstance which cannot be guaranteed an incoming WA government, although the debates within political parties were perhaps some of the fiercest.

The States also commenced liberalisation at varying intensities.

SETTING THE SCENE

Unfortunately, Western Australia was then very reluctant to remove political involvement from the economy. This position was highlighted by the ‘WA Inc’ scandal of the 1980s which resulted in an estimated loss of a minimum \$600-million of public money. If the loss to the public emerging from the WA Inc. scandal isn’t enough to provoke questions over government involvement in the economy, then one need only consider prevailing economic wisdom about the benefits of liberalisation. The Hawke/Keating accomplishments are evidence that even though removing government from the economy is a painful process, it can be done, and that the benefits are considerable, creating opportunities for Australians now entering the workforce. Without a reform agenda implemented now, in 2030, when those born today start entering the workforce, they may be departing for the eastern states or, more likely, a South Asian business hub.

One way or the other, the decisions made by the next Western Australian government will affect the choices available to future Western Australians.

This study does not contain many original ideas; the policies it advocates have mostly been recommended, explained and successfully implemented somewhere before. This is deliberate. Not all recommendations will be popular and all will require further work. Nor are they directed at a particular party or persons. However, from being critical of the decisions of those with grand visions we have arrived at carefully considered policy recommendations which are incremental, proven and politically possible.

Western Australia’s economic situation and outlook

Much has been written about the so-called Western Australian economic ‘boom’. It is one of a common circumstance in democracies. The cycle of regular elections and the business cycle are rarely aligned, and expenditure at the wrong time for the economy causes governments to be even

less fiscally disciplined than they would otherwise be. Moreover, the desire to control the economic cycle, however futile this is, runs through politicians of all stripes.

Before fiscal imperatives are considered (the way in which governments spend limited taxpayer funds), the economic context of Western Australia needs to be understood.

There has been much discussion about Western Australia's unique possession of a natural resource base on the fringes of the rapidly industrialising Asian region and sustained economic growth. However, in reality this will not happen. Those claiming that there will be a never ending period of growth (because somehow economic precedents do not apply) would be well advised to read *This Time is Different: Eight Centuries of Financial Folly* by Carmen M. Reinhart and Kenneth Rogoff. We believe the time of current economic expansion, although it has already endured longer than most, is *not* so different and recommend prudent actions accordingly. Western Australia may enjoy a higher average growth rate than east-coast states, but its economy will probably be more volatile with corresponding impact on government revenues. The 'free kick' of strong terms of trade is a passing opportunity.

While an economic meltdown in China is often thought of as the primary event to affect Western Australia's growth, merely a 'soft landing' or perhaps a euro-related crisis which pushes down global growth could also generate impacts. Certainly these risks have been covered in successive budget papers, although, aside from a discussion on such risks including the movement in the AUD:USD exchange rate, there is no real sensitivity analysis of a substantial shock to the economic system. The rate of increase in recurrent spending by the Western Australian government is compounding vulnerability.

Fiscal Imperatives of a Prudent Government

The continuous campaign of promises is killing government and costing taxpayers a great deal of money. None of this is reform, it is about buying votes. And the queue grows as our wealth grows. Every cause has its lobby and every lobby its review. Each asks for the world and with the politicians vying for votes their dreams are assured eventually.

—Gary Johns, former Australian MP

Based on budget forecasts, a number of difficult decisions will need to be made so that state debt and the provision of services remain manageable under a range of different economic circumstances. The fact that there is now debate about the merit of a future fund is a positive sign, as it suggests that there is greater political consideration and public appetite for deferring today's surpluses. While there will be disagreement over how this can be best achieved, we hope that the political goal posts are expanded to encompass longer-term prudence.

While the decline of the proportion of GST which the state receives back from the federal government is well known, there is little discussion about GST allocations in a scenario when commodity prices crash. The GST allocations are based on five year averages, so it is possible that in a period of economic turbulence and vanishing royalties, GST income may actually also decline. This eventuality would result in difficulty for the next Western Australian government, given the relatively large and increasing debt and debt servicing cost, and only a relatively small surplus.

Government expenditure is not a free good. Every outlay is made at the expense of another outlay: a sports stadium is an alternative to new port facilities, or a hospital, or higher-paid police, and not only to other public sector outlays. Lower public outlays, even if surpluses are used initially to redeem debt, eventually result in lower taxes, growth and greater opportunity to spend. In short, every outlay should be the

best possible use of the funds—its quality matters. While no government achieves that precision, every government should attempt to. The expected rate of appropriately discounted economic return is a very useful guide for evaluating competing demands for outlays. It should be rigorously and consistently employed, but even with economic tricks such as shadow pricing, the benefits of not every outlay can be reduced to dollar measures. Political judgement is inescapable but the greatest-benefit test remains.

An expenditure made today is an alternative to an expenditure made tomorrow and deficits tend to ask our children to pay for our indulgences. Government revenues ebb and flow with the business cycle and terms of trade. In bad times, governments may and probably should have deficits, but in good times, these should be offset by surpluses. To do otherwise is irresponsible.

There are many more-than-reasonable savings in recurrent expenditure that should be made. Take, for example, seniors' benefits; elderly people are far from uniformly impecunious. Nevertheless, the big savings will need to come from the capital account and these will not be available from works already begun. The savings must be made from future budgets by not committing to outlays of dubious priority now. Because government budgets cannot allow for promises not yet made, they tend to budget capital outlays peaking in the short-term and declining thereafter; the out years should thus be treated with great scepticism.

Electricity, water, and rail systems, although owned by the government, provide marketable services to the public who use them. Their assets have been caused to run down as successive governments have milked their revenues to reduce deficits and capped their charges for political advantage. The current government has, correctly in our opinion, allowed them to gradually raise charges to generate revenues to maintain their infrastructure and negate the possibility of their becoming burdensome on future budgets.

SETTING THE SCENE

Nevertheless, the electricity grid, water mains and rail remain in deplorable condition. Similar observations might be made of the road and sewerage systems. As long as these remain in public hands, full commercial disciplines cannot or will not be fully applied. In spite of any current intentions to the contrary, as we have already seen, politics will eventually intervene by restricting necessary capital raisings, directing where or what new investment will be made, or setting prices. The only answer is privatisation, yielding funds to repay government debt, imposing market discipline and offering relative freedom from political interference. Where a significant degree of monopolisation remains, some regulation will be appropriate.

Sound investment today does indeed increase production, which, in turn, increases the ability to spend tomorrow. However, governments must live with too many claims, often employing fanciful multipliers, listing the benefits of every sort of investment of public monies. Investments in both the public and private sectors are made that do not yield benefits which justify even their running costs, but at the planning stages at least some people believe that positive benefits will result. That is not, however, the appropriate test which is: could the resources be otherwise applied to yield greater benefit? Planners in the private sector try to apply this test because if they fail too egregiously, they cannot attract investors and their enterprises eventually fail. Public sector visionaries, with call upon taxpayers (that is, coerced investors), tend not to be as well disciplined. Before committing taxpayers' funds, government should ask why the more efficient private sector has not undertaken the particular project. The answer may be that the project is not the best use of finite resources; that it is inhibited by the government's own regulation; or that the cost of collecting revenue from it is prohibitive such as with a street light or the indigent ill. Only in the latter case is public investment ideal and then only after cost/benefit analysis—there may be better ways to help the poor.

Removing or reducing a government benefit is difficult. Certainly, businessmen often make 'cuts' in their programs that are proportionally far greater than any politician would contemplate. The incentives are different: the businessman loses all if he does not make cuts whereas the politician loses office if he does. To make cuts and to survive, a political leader must convince his public that they are necessary and even when a crisis is obvious that may prove too difficult. It is, as Weber observed, like boring holes in hard boards. It takes consistency, repetition, good rhetoric and time. Furthermore, cuts are best made in good times, not bad. Western Australia faces no crisis at present, but instead, a great opportunity is being squandered. While politicians perhaps deserve more sympathy here than they normally receive, they aspire to be leaders and a reasonable public should demand that they lead.

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GENERAL RECOMMENDATIONS

Conduct a wide-ranging audit of government involvement in the economy

Project Western Australia is only one short attempt at defining the parameters of reform. Accordingly, our first recommendation is that a new government should initiate an ‘audit’ of state functions. The new Kennett Government did in 1992 as did the new Newman Government in 2012. If executed well, these audits can provide a framework for governments to evaluate the activities of the state, guide individual ministers to review costs and programs rigorously, and offer a political defence against criticism.

In the Western Australian context, the 1993 *Agenda for Reform: Report of the Independent Commission to Review Public Sector Finances* (otherwise known as the McCarry report) and more recently the work of the Economic Audit Committee set up in 2008 were similar mechanisms to review the current state of the books and activities of government.

We recommend that the next Western Australian government conduct a wide-ranging audit of government involvement in the economy.

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Good economic policy is good social policy

The terms ‘social policy’ and ‘social disadvantage’ are usually used to justify greater public spending on problems such as poverty and homelessness. Their aims are laudable and too often those supporting limited government involvement overlook this fact. However, the crucial point is that government is not always the best instrument through which to improve personal welfare. Importantly, less government regulation and involvement in social programs will actually be beneficial to those in need, although the social welfare industry may protest. These points are generally best made by centre-left political parties whose humane intentions are better accepted.

None have made the case for radical reform of social welfare more credibly than two Labour Party politicians: Roger Douglas, Minister for Finance of New Zealand, and Tony Blair, Prime Minister of Britain. Both believed that current social programs were not just a blunder on purely pragmatic grounds, but also wrong on moral grounds. They declared it was wrong to take from the most industrious, most respectable poor to cater for the least industrious, least responsible poor. It was mistaken, they thought, to impose rules that make it rational for adolescents to behave in ways that destroy their futures.

When job training programs are set at the level of the least compe-

tent they take from those more competent. When people who, rather than accept social welfare, undertake menial or unpleasant work and are not rewarded both financially and with enhanced status, government refuses to give the incentives they deserve and need.

While recognising that government needs to ensure the provision of services, the Barnett Government, rightly in our opinion, is increasingly employing not-for-profit organisations to deliver social services.⁴ Nevertheless, the government should remain attuned to what ‘sit down money’ might do to some fine charities—such is the nature of the trade-off.

The most important transfers are the province of the federal government. There are, nevertheless, several minor transfers that are for their main part ‘churning’. Further, they needlessly deny the poor the right to spend tax-payers money as they might wish. Examples include the annual seniors Cost of Living Rebate, the Country Aged Pension Fuel Card, the security rebate, free public transport for seniors, the Kids Sports’ initiative and others.

Furthermore, the unintended consequences of transfers sometimes include the breakdown of security of person and property. Every West Australian is entitled to security and nothing will be achieved in communities where it is absent. While we do not underestimate the difficulty of the task, it is nonetheless the first necessity. A political party that fears to address these issues might remind itself that in the United Kingdom, the Blair Labour Party won two elections while promising to do so.

We recommend that the government, of whatever political leaning, should state its values clearly and defend them. Only then can they be debated, improved and above all employed.

We recommend that the government should review all payments to the disadvantaged, elderly or ill to see that they conform to its stated values and address genuine need, amending or closing those programs that do not.

We recommend that the government should match new funding for the not-for-profit sector with some reduction in the government sector outlays.

We recommend that the government should use the for-profit organisations where they offer best contracts.

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Secure and protect property rights

Our property rights are almost subliminally recognised by the public, banks and commerce. Most importantly, they are a legally enforceable transaction. This legal system is hidden deep within the property rights concept. It's this system that allows us to transform ourselves from mere squatters to landowners, or perhaps more correctly, right owners.⁵

—Gerry Eckhoff, former New Zealand MP

In 2007, Louise Staley opened her paper titled *Reshaping the Landscape: The Quiet Erosion of Property Rights in Western Australia* with: "Throughout Western Australia fundamental changes have occurred in the way private property rights are protected by law."⁶ Five years later, the situation has not improved and the erosion of Western Australian property rights continues.

Publicly, the rhetoric of some political figures has changed in favour of creating more safeguards for protecting property rights, but there have been no legislative or policy actions taken thus far. Various planning officials and other bureaucrats continue diminishing existing rights, in an incremental manner.

The Report of the Standing Committee on Public Administration and Finance in Relation to the Impact of State Government Actions and Processes on the Use and Enjoyment of Freehold and Leasehold Land in Western

Australia identified over one hundred Western Australian Acts which can affect property rights in land.⁷ Generally, if land is acquired by the Government for public works such as a road, compensation is available. The major cause of injustice is where the land remains the property of the owner but the right to use and enjoy the property is restricted. Apart from the loss of utility, the owner suffers capital loss. For example, when native bush land is zoned for rural use it cannot be cleared for agricultural purposes. The market value of the land is severely reduced and local government rates must still be paid. Not only should the community be prepared to compensate, the asset must be valued at the price prior to the imposition of the restriction.

It is worth highlighting that Premier Barnett promised legislation which would ensure that owners of private property would not have all or part of their savings taken without adequate compensation for their loss. We note that support for a Green Paper for a Private Property Rights Bill has not yet materialised. The premier should be held to his promise. Any legislation should be at least equivalent to the Commonwealth constitution's section 51 (xxxii) which requires the any federal government property takings to be made 'on just terms'. People should not have all or part of their savings taken without adequate compensation for their loss.

A Private Property Rights Bill would not directly affect the reach of environmental law, heritage law, land-use planning or restrictions limiting the provision of services, but it would mean that when existing rights are taken, the intended public benefits are met at public cost rather than that of unlucky individuals. That justice requires adequate prompt compensation is obvious. Furthermore, people will not invest, or will demand higher rates of return, when the benefits of investment may be taken by government fiat. Sovereign risk is restricting investment and thereby State domestic product and living standards.

We recommend that the government legislates for the protections of property rights and efforts are made to form agreement for a state constitutional amendment.

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Build capacity to expand micro-economic reform options

Western Australia has been well served by the quiet work of both the Economic Regulatory Authority (ERA) and continued efforts of the Treasury Department on micro-economic matters. Their studies, insights and resulting policy changes have helped inject competition into sectors of the Western Australian economy where once bureaucrats made decisions. Nevertheless, one of the reasons for the lack of the appetite for continuing reform is that our parliamentarians and governments do not have adequate economic tools or general awareness of the need and opportunity to embark on public policy changes or of the cost of not making the changes.

Now that the ERA has gained experience and established its credentials, it should have its brief expanded to embrace any regulation with potential economic consequences. As well as reporting on issues referred to it by the government, it should have the power to initiate inquiries. The ERA should report to the Parliament with public information that the government may use to assess a situation and the public may use to assess the government.

Widening the brief of the ERA will require additional public resources. However, the sums will be trivial in comparison to the potential benefit of reliable knowledge of the cost of restrictions on economic

activity. The need for this information is most obvious in the areas of environmental and land use planning where it is often contended that restrictions inhibit economic development. We do not argue that any environmental or land use restriction is without benefits, but only that the benefits foregone should be known to allow for rational evaluation.

It should be noted that Western Australia had begun to make significant advances in a number of areas, including electricity, which were only possible with the internal policy and analysis capacity within the Department of Treasury. However, the erosion and disbanding of the important work by the Department of Treasury was made evident in the preparation of Project Western Australia. Significant skills were lost from the Department, which will make re-starting the reform process more difficult.

We call for reform of existing regulation and the acceleration of deregulation and privatisation. However, as these processes are complicated and not without pitfalls, it is important to have the skills within government to carry them out and give appropriate oversight. It is also essential that information is available to the public as well as to elected and appointed officials who, in the absence of crisis, have little incentive to differ from the status-quo.

We recommend that the Economic Regulatory Authority be given the powers to initiate its own inquiries and also to act as a state-based, micro-economic think tank to which adequate resources are allocated.

We recommend that all newly elected Western Australian politicians (and existing members, if requested) be offered an orientation briefing by the Treasury Department and Economic Regulatory Authority on their respective roles, capabilities and general duties.

We recommend that the economic reform unit of the Treasury Department be reconstituted and career pathways are established for micro-economists specialising in reform.

We recommend the creation of a senior minister position that has responsibility for reform and deregulation.

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Repeal and limit the growth of legislation

Each year, the Western Australian Parliament passes numerous bills which are signed into law. Western Australia is not unique in increasingly creating a complex maze of legislation and regulation, but it is doing so at a faster rate than most other jurisdictions. This not only creates difficulties when interacting with government and its various appendages, but it also imposes a significant compliance cost which is the equivalent of around 2 per cent of Gross State Product, or \$2.1 billion a year.⁸

Despite public outcries and pressure from departments driving their own policy agenda, political leaders need to remember that doing nothing is indeed an option. Second, as discussed below, efforts should be made to repeal unused legislation. Third, we suggest considering the inclusion of a standard sunset clause into most new legislation so that after a period of 5, 10 or perhaps 20 years, the legislation lapses and requires a conscious renewal by a future Parliament.

Premier Barnett stated in February 2012 that his government would introduce ‘Repeal Day, providing an annual opportunity for the Parliament to specifically focus on repealing or removing obsolete Acts, or irrelevant or superfluous boards and committees created by statute.’ While more than one day a year could certainly be devoted to this activity, it is a step in the right direction as it shifts the focus on removing

redundant, unused and archaic Acts. We support the concept of Repeal Day and encourage further actions to remove the legislative and regulatory burdens on Western Australians.

We recommend that a standard sunset clause is considered for new bills entering the Western Australian Parliament.

We recommend that Repeal Day becomes a regular fixture on the Western Australian parliamentary calendar and that it is expanded to repeal week.

Further reading

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Department of Treasury, 2009, *Reducing the Burden—Report of the Red Tape Reduction Group*, Government of Western Australia, at: <http://www.treasury.wa.gov.au/cms/content.aspx?id=4039>.

Review inefficient state taxes

Taxes require effort to collect and then more effort in compliance. This is particularly true for those state taxes which distort economic behaviour. According to the Institute of Public Affairs' State Business Tax Calculator, Western Australia was found to be the second lowest taxing state or territory in the country.⁹ While this is a good starting point, there needs to be greater consideration of the type of taxation as well as the quantum of the tax take. Because federalism is competitive, the issue of *how* states tax, and the effect of that taxation on individuals, is important.

All taxes produce what economists refer to as 'dead weight costs', that is losses incurred by the community as a whole. Some are, however, much more costly than others. The marginal welfare losses can be represented as percentages of the revenue raised. According to the Commonwealth government's Henry Review, some dead weight costs are extraordinarily high: royalties and crude oil levy at 70 per cent; insurance taxes at 68 per cent; payroll tax at 41 per cent; motor vehicle taxes at 39 per cent; conveyancing stamp duties at 35 per cent; and land tax at only 8 per cent.¹⁰ In terms of pure policy, when raising a set amount of revenue, to achieve the least harm, taxes would be chosen to lower welfare losses.

Another factor complicating tax policy is the fact that various interest groups will seek tax exemptions and other 'carve outs' for 'special

causes'. Furthermore, the revenue collection priorities may be distorted by policies which seek to favour one group over another. Certainly, it is important to consider those in need; however, this is best done by a transparent government transfer and not by distorting the tax base.

It is difficult to disentangle the Western Australian taxation scheme from the Commonwealth Government grants and redistribution of the Goods and Services tax. In 2011-12, Commonwealth assistance amounted to around 38 per cent of total state revenue.¹¹ The well-publicised dispute of the diminishing share of GST distributions is beyond the scope of this paper, however it is relevant in so far that it will be a driver of budgetary considerations for the next Western Australian government and probably beyond. That being said, the state government does have a number of areas which it can tax, namely property transfers, vehicle licences (and transfers), payroll, land, and income. (Although taxing income would be politically challenging and administratively difficult.)

Based on the available taxing options for the Western Australian government, the question is: have we got the mix right? For example, if the State were to abolish all stamp duties and instead substitute a tax on the unimproved value of all land or just high valued land, Western Australians would gain considerably. Such a radical change to the taxation system could only occur from bi-partisan support and a set of robust transitional rules. However, as outlined in our recommendation, this need not be fully completed prior to the election, rather it is important that it becomes the intention of the next government.

We recommend the new government should announce its intention to implement the abolition of duties on land and motor vehicle transfers and the introduction of a much broader based land tax than currently exists.

Further reading

Department of Treasury and Finance, 2007, *State Tax Review: Final Report*, Government of Western Australia.

Department of the Treasury, 2010, *Australia's Future Tax System—The 'Henry Tax Review'*, Commonwealth of Australia.

Department of Treasury, 2011, 2011-12 Budget Fact Sheet, Government of Western Australia, at: www.treasury.wa.gov.au/.

Department of Treasury, 2012, 2012-13 Budget Fact Sheet: where the money comes from and where it goes, Government of Western Australia, at: www.treasury.wa.gov.au/.

Julie Novak, 2011, *Business Bearing the Burden 2011, The Size and Impact of State and Territory Government Business Taxes: The IPA State Business Tax Calculator*, Institute of Public Affairs.

Improve transparency of government

Western Australian governments are less than ideally accountable, although modern premiers have far more institutional restrictions placed on them than past leaders. Moreover, in a state which seems to favour grand vision and mega-projects, accountability is particularly important.

Tripartite agreements between governments, business and unions has been called ‘corporatism’. The extreme of this corporatism can be seen in the WA Inc. experience. Successive governments have distanced themselves from these types of behaviours, yet the combination of over-ambitious vision, big business and development often result in a version of corporatism which in the absence of transparency creates separate rules of business for insiders and outsiders.

Recognising that sunlight is the best mechanism to reduce all untoward behaviours, any measure which can increase transparency and reduce the potential for corporatism would be a positive development.

To make Government more accountable to Parliament and Parliament to the people, any or all of the following initiatives might be adopted:

- Reduce the 50 odd departments to equal the number of Ministers.
- Require Cabinet submissions, costed by Treasury and accompanied by an impact statement, to lie on the Cabinet table for 14 days before debate.

IMPROVE TRANSPARENCY OF GOVERNMENT

- Require all Bills to lie on the Parliamentary table for 14 days between the second reading and debate.
- Make Question Time more effective for holding governments to account by extending its time and allowing short, follow up questions.
- Institute Citizens Initiated Referenda, especially the power of veto.

None of the above, however, is as important as governance that keeps out of commerce and so far as possible eschews privileges, such as occupational licences and freedom from planning restriction.

We recommend that the government eschews commercial activity.

We recommend all members of Parliament be given research and library services comparable to what exists in Canberra.

Further reading

Mike Nahan and Tony Rutherford (editors), 1993, *Reform and Recovery: An Agenda for the New Western Australian Government*, Institute of Public Affairs.

Patrick O'Brien (editor), 1986, *The Burke ambush: corporatism and society in Western Australia*, Perth, p.77.

Review the largess of the Royalties for Regions program

The so-called Royalties for Regions (RfR) program has formalised pork barrel politics on a massive, perhaps unprecedented scale. Yet the actual formalisation and scale has provided some opportunities for rules to limit the program's worst excesses. While the RfR program would ideally be abandoned, we acknowledge that it appears set to remain in some shape or form regardless of which political party (or parties) forms government and, accordingly, needs to be disciplined.

In 2011/12, the RfR scheme dispersed \$1.493 billion, supposedly intended to help develop the regional areas of Western Australia.¹² No doubt some will claim that RfR outlays, which are subject to evaluation against alternative regional use, are more efficiently employed than other government outlays for which evaluation is less consistently managed. This is unlikely, given RfR rules, but for want of evidence the claim would be hard to refute.

Nevertheless, we believe that the RfR program is not the most efficient means to invest in regional development, as there have been many anecdotes of scrambles to spend the funds while they are available. Accordingly, it is vital that the investments are directed to the most appropriate areas as possible under the circumstances. The

THE ROYALTIES FOR REGIONS PROGRAM

Regional Development Council could facilitate this. More could be done within existing rules to divert RfR resources to areas of greater benefit. For instance, they could be used to upgrade highways such as the southern end of the Great Northern Highway serving the regions, which is inadequate for the heavy traffic flow. To sugar the pill, the Nationals could be encouraged to place signs like the Federal Roads to Recovery signs advertising the source of the funds.

A longer-term problem is that the RfR program is producing a culture of grants rather than self-help. This is becoming evident with the decline of traditional fundraising activities and emergence of semi-professional grant raising experts.

To make a virtue of necessity, the Regional Development Council should be incorporated into the Treasury Department. This could facilitate comparison with non-RfR outlays and for some sound procedures to become general practice.

We recommend that, if the Royalties for Regions program is not repealed, it should be subject to much more analytical rigour by expanding the powers and reporting requirements of the Regional Development Council within Treasury.

Further reading

Department of Regional Development and Lands, 2010, *Royalties for Regions Annual Report 2009-2010*, Government of Western Australia, at: <http://www.rdl.wa.gov.au/publications/Pages/Reports.aspx>.

Department of Regional Development and Lands, 2011, *Royalties for Regions Annual Report 2010-2011*, Government of Western Australia, at: <http://www.rdl.wa.gov.au/publications/Pages/Reports.aspx>.

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PROJECT WESTERN AUSTRALIA

Regions 2011-12 Budget: Estimated Regional Breakdown, Government of Western Australia, at: <http://www.rdl.wa.gov.au/publications/Documents/RoyaltiesforRegions2011-12Budget-RegionalBreakdown.pdf>.

Department of Regional Development and Lands, 2011, *Royalties for Regions: Progress Report July 2010—June 2011*, Government of Western Australia, at: <http://www.rdl.wa.gov.au/publications/Documents/ProgressReport-RoyaltiesforRegions2010-2011-CompletePDF.pdf>.

Work with the Commonwealth Government

As a state within a federal compact, Western Australia cannot achieve its aims without some level of collaboration with the federal government. While there have been growing calls for secession and cooperative federalism, both are unrealistic. Western Australian governments are responsible for the welfare of the Western Australian people and should govern accordingly. This leads to inevitable rivalry with other states, as well as some conflict with a federal government which collects the lion's share of the taxes and has the tendency to try to direct activities which are traditionally those of the state. In this context, there is nothing wrong with civilly conducted disputes.

We see three issues that a Western Australian government should press with Canberra: GST allocations, Native Title, and energy policy.

GST Allocation: Presently, there is debate over a floor in the redistribution of the GST so that at a minimum, 75 per cent of the funds are retained in the state where they are collected. There is also a problem of forward budgeting when the return can be varied depending on factors outside of the control of the government.

Native Title: Where there may be an opportunity for a land title that indigenous people would be delighted to settle, that gives them more than does native title but has fewer costs for other parts of the community pastoralists, miners and other developers, it should be adopted. An estimate in 1998 suggested the Native Title Act had cost \$30 billion since 1993. The opportunity cost now would be many multiples of that, yet it has had little discernible impact on indigenous disadvantage.

Energy Policy: With the effective nationalisation of energy policy via the Renewable Energy Target and Carbon Tax, Western Australia has now found itself in a situation where it has to pay for the cost of implementing a policy which will be disproportionately detrimental to Western Australia.

We recommend that the Western Australia government prepares a case to amend the Commonwealth Grant Commission, fix Native title and be compensated for national energy policies which disproportionately impact it.

PORTFOLIO RECOMMENDATIONS

Create real water markets

The State owns Western Australia's dams and a desalination plant, as well as managing nearly all of its publicly accessible water. Continued government involvement and a lack of competitive pressure on water supply options (even options which have greater reliability in drought years) has led to planners, bureaucrats and politicians making decisions which are often neither cost effective nor efficient.

In light of this, full deregulation and privatisation of the water system may be a suitable longer-term goal. Initial steps require more public disclosure of cost/benefit analyses of water infrastructure decisions, as well as a review of risk management that omits unachievable aims such as 'drought proofing'. The adoption of recommendations by the ERA concerning Western Australia's water and waste water industry should assist in the creation of real water markets. The ERA recommended an independent procurement entity (IPE) to assist in maintaining security of supply, introducing water trading mechanisms and a State-based third party access system to water and waste water infrastructure could increase competition in the sector.¹³ The State-based third party access regime, which would most affect waste water services in Western Australia, would allow competition between infrastructure owners and other service providers, removing

CREATE REAL WATER MARKETS

delays and barriers for potential competitors.¹⁴ Such measures would effectively un-bundle the Water Corporation's monopoly role in water and waste water services.

It is clear that construction of a second desalination plant has passed the point where any alternative should be considered policy. In the long-run, these fresh water sources should be privatised. The immediate priorities are to ensure supply at minimum cost (not to the extent that scarcity can never occur but that it should be rare) and to price water close to its scarcity value. Irrigation water should also be priced at scarcity value, although this presents additional problems, as neither the appropriate property rights nor the stream flows that should be reserved for environmental ends are settled.

While desalination is unlikely to ever supply cheap water and both coal fired and nuclear electricity powered processes face current objection, as long as people are prepared to pay the price for desalination, there can be no shortage of household and industrial water. Expert evaluation indicates that the Yarragadee aquifer could be a further alternative, with further a sustainable source of fresh water (45GL/annum) albeit with some uncertainty concerning environmental affects within the South-West.¹⁵

We recommend that incremental steps are taken to raise the price of water to its scarcity value, so that water is priced on a flat unit charge which does not discriminate between household or industry users.

We recommend that there should be clarification of irrigators' property in water and compensation for any takings including rights established by long custom.

We recommend that environmental flows should be calculated as a proportion of total flows in bountiful or dry years and not as use that is taken prior to irrigators' water rights.

We recommend further evaluation of the Yarragadee aquifer with a view to establishing an acceptable trade-off between a cheaper water source and environmental cost, should there be one.

Further reading

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Economic Regulation Authority (ERA), 2012, *Inquiry into the Efficient Costs and Tariffs of the Water Corporation, Aqwest and the Busselton Water Board*, at: http://www.erawa.com.au/1/1210/46/inquiry_into_the_efficient_costs_and_tariffs_of_th.pm.

Economic Regulation Authority (ERA), 2008, *Inquiry into Competition in the Water and Wastewater Services Sector*, at: http://www.erawa.com.au/2/692/46/inquiry_into_competition_in_the_water_and_wastewat.pm.

Maintain momentum for reform of electricity markets

Electricity remains a sensitive issue for governments. While probably an issue in the 2013 election, continuing reform need not be abandoned or reversed. Different political parties will probably pull energy policy in contrasting directions. However, the reform agenda which was laid down in 1993 in *The Energy Challenge for the 21st Century: The Report of the Energy Board of Review* (Carnegie report) has had bi-partisan support for most of two decades.

The Carnegie report proposed cost reflective pricing and a staged approach for the disaggregation of the integrated state-owned gas and electricity utility, as a predecessor for potential privatisation. Progress in Western Australia has stalled. Disaggregation resulted in what have become Synergy, Verve, Western Power and Horizon, whereas privatisation and a full shift to cost-reflective pricing still seem beyond the realm of political possibilities. Nevertheless, the price of electricity is still lower than the cost of supplying electricity. The Western Australian government pays the difference; providing an effective consumer-subsidy of \$367 million in the 2011–12. In 2012-13, this consumer-subsidy is forecast to decline to \$44 million.¹⁶ However, without the rise in tariffs, this subsidy will increase. Furthermore, policy to have uniform tariffs means that those in the South-West of the state are subsidising most

remote and regional electricity consumers.

Two problems are emerging in the Western Australian electricity sector. First, Carnegie report agenda has been substantially abandoned, even reversed with suggestions that the state-owned retailer, Synergy, and the state-owned generator, Verve, should be merged. The merger would substantially lessen competition in the market and impinge on the reform process. The ERA flagged this potential setback in the 2011 Annual Wholesale Electricity Market Report. Second, there is an apparent bipartisan resistance to shift to a truly cost-reflective pricing mechanism for electricity sales.

We recommend a re-commitment to the bi-partisan electricity reform process recommend in the Carnegie report.

We recommend cost-reflective electricity prices for all Western Australian households and businesses, with any circumstances of need or isolation being addressed by separate welfare payments.

We recommend the Tariff Equalisation Contribution scheme be replaced by a transparent mechanism based on a Community Service Obligation.

Further reading

Mark Beyer, 2012, 'Energy Merger Doesn't Stack Up', *WA Business News*, March 12, 2012, p.37.

Economic Regulation Authority (ERA), 2012, *Inquiry into the Efficiency of Synergy's Costs and Electricity Tariffs*, at: http://www.erawa.com.au/1/1165/46/inquiry_into_the_efficiency_of_synergys_costs_and_.pm

Roderick Carnegie, 1993, *The Energy Challenge for the 21st Century: The Report of the Energy Board of Review*, Western Australia: Energy Board of Review.

Reform industrial relations

Labour flexibility is critical for Western Australia. Yet industrial relations remains a political bogeyman. At the national level, there has been a significant rollback of workplace reforms, which hampers productivity. The system has become so complex and draconian that many small businesses will not employ staff and now rely on engaging all external parties as contractors.

Increasing federal involvement in workplace relations issues constrains the Western Australian government. The majority of Western Australian workers are covered by the federal workplace relations system. Nevertheless, there are many areas where Western Australia can significantly increase the workplace flexibility.

Employees in unincorporated businesses and some state government employment are covered by state industrial relations law. Western Australia has a higher proportion of small businesses and contractors than New South Wales and Victoria. The state has always had a vibrant state system, and it now constitutes about 38 per cent of the workforce. Union membership is just 16.4 per cent.

The system is out-dated and cumbersome. At the top of the structure sits the Industrial Appeals Court and the Industrial Magistrates Court. The WA Industrial Relations Commission (WAIRC) involves a

President, Chief Commissioner, Commissioners, Commission in Court Session, Full Benches and an Industrial Registrar. The three principal acts run to 440 pages supported by 350 pages of regulations.

Of particular importance to a flexible labour market is independent contracting. It is now typical for union bargaining claims to require employers to advise unions of the names of contractors they propose to engage, the tasks they will undertake, and the term of the engagement. The contractors' staff are also to receive pay and conditions equal to the applicable union agreement. The Government should ensure its workplace relations system prohibits industrial agreements interfering with an employer's right to engage contractors. Independent contracting and labour hire should be the province of commercial law and not workplace relations law.

The Federal Parliament has abolished the Australian Building and Construction Commissioner. The Western Australian Government is a significant client of the industry and can introduce its own taskforce to enforce proper standards of conduct on its building projects. It can copy Victoria setting out the standards of conduct to apply to government projects. Contractors who fail to secure proper standards of conduct should be disqualified from working on government projects.

Furthermore, rights of entry to work sites by union officials are being regularly abused. Entry for the purpose of discussion with workers should be limited to instances where a union has members at the work site who are covered by an agreement or award that applies to the union.

The Western Australian public sector is demonstrating a degree of complacency in its approach to workplace reform, work practice change and productivity improvement. Public sector employment is characterised by a plethora of rules that constrain reform. Reward for effort and incentives are unheard of as the system is grounded in notions of protecting employee rights and equity.

Western Australia is expected to develop relatively rapidly over the

REFORM INDUSTRIAL RELATIONS

next four years, but it is widely claimed that this growth will be significantly inhibited by a want of labour. Increasing interstate labour agility should be promoted as a means of meeting the future labour demand. Accordingly, Western Australia must be made an attractive State to migrate to. Taxes, housing, and the labour market are current obstacles. More generally, the ability to draw on an international workforce through skilled migration will be the key to meeting short term incremental increases.

We recommend that the types of agreements available under the Western Australian system are changed. The agreement types should be: individual agreements, employee collective agreements, and union collective agreements. A robust, no disadvantage test would apply to individual agreements.

We recommend that Western Australian workplace law prevent agreements from containing provision that restrict the engagement and terms of contractors and labour hire employees.

We recommend the Western Australian government establish a building industry task force. The government should also strengthen its building code for government projects.

We recommend that Western Australia revise its cumbersome workplace relations tribunal and court by abolishing the Industrial Magistrates Court and the Industrial Appeals Court. These courts' jurisdiction should be transferred to the Magistrates Court and Supreme Court.

We recommend that the right to enter a workplace to discuss union issues should be limited to circumstances when a union has a member employed at the workplace.

We recommend the Western Australian government impose robust scrutiny of government employee agreements to ensure wage increases are matched by real productivity improvements.

Improve health policy

The world over, implementing health policy is fiscally and administratively difficult. In Western Australia, it ties up around 25 per cent of recurrent budget outlays and is increasing faster than any other outlay. Because of the Medicare and federal funding arrangements, this leaves state governments insufficient room to manoeuvre.

The Commonwealth government is playing an increasingly interventionist role, including the centralisation of regulation for health-care professionals. There are also persistent shortages of doctors and of specialists, anaesthetists, obstetricians and psychiatrists, particularly in regional and remote areas. Despite a range of initiatives and investment, there are still waiting lists. Occupational licensing is used as a tool to restrict the supply of health care professionals to the detriment of reasonable costs. Furthermore, the centralisation of health practitioner regulations significantly dilutes the potential for regulatory experimentation between the states and the discovery of best practice standards.

A 2008 Mannkal-IPA research paper advocated funding individual patients irrespective of where, or by whom, the service was to be provided.¹⁷ This ‘voucherisation’ of health financing would encourage health care providers to compete on quality and cost for their share of the public requiring medical treatments.

IMPROVE HEALTH POLICY

Western Australia is a national leader in enabling private hospitals to treat public patients and injecting private sector efficiencies into the public hospital system. For example, the service company, Serco, has been contracted to deliver non-clinical services in the Fiona Stanley Hospital, which, with most other major hospitals is a public private partnership project. There is further scope to involve private entities within the state's public health system. We understand that progress is being made.

Diagnosis-Related Groups to fund hospital services are now established. These allow hospital management a high degree of responsibility and choice. Hospitals could be managed either by the private sector, by community interests, or a mix of both and might be referred to as 'charter public hospitals'.

We recommend that the Western Australian government should cooperate with other states and the Commonwealth to achieve more rational personal insurance and state government funding arrangements.

We recommend that Western Australia should opt out of the national health-practitioner laws and liberalise occupational licensing standards, as part of efforts to promote the supply of health professionals.

We recommend the Western Australian government negotiate with the federal government to reduce delays and obstacles restricting qualified overseas medical professionals entering the state's health industries.

We recommend that the contracting out of public patient treatments to private hospitals should continue, as should the contracting out of non-clinical services and services.

We recommend that the government should persist with developing case-mix funding and charter public hospitals by introducing health care vouchers for non-emergency treatment.

Further reading

Mike Nahan and Tony Rutherford (editors), 1993, *Reform and Recovery: An Agenda for the New Western Australian Government*, Institute of Public Affairs. pp.182-185.

Ross Fox, 2008, 'Taking the Pulse: Reforms Initiatives for the WA Health System', in Richard Allsop, Ross Fox, Alan Moran, Matthew Ryan and Louise Staley, *A reform agenda for Western Australia*, Perth: Institute of Public Affairs and Mannkal Economic Education Foundation, Chapter 6, pp.87-109.

Promote effective aid for individuals with mental and physical disabilities

In 2011, the Productivity Commission advocated a compulsory national insurance scheme to fund aid to individuals with disabilities.¹⁸ However, for the foreseeable future, we do not believe that a federal administration will find the resources to implement the insurance scheme and we question the wisdom of relying on one centralised monopolistic scheme.

Nevertheless, the Productivity Commission has many recommendations for the delivery of services that are applicable whichever level of government is responsible.

At least until a federal scheme takes over, these should be implemented in Western Australia. This could increase choices for all individuals with disabilities, facilitate the development of outcomes measures, allow competition among service and facility suppliers, and redirect assistance towards the more serious cases.

The problems faced by those with severe disabilities are of greater moment than those faced by almost all others or others who call upon taxpayer dollars . They therefore might be financed by axing other outlays, such as some of the subsidies of able people's entertainments.

We recommend that the Western Australian government should review and simplify assessment procedures, while recognising the inherent difficulty of obtaining appropriate expert advice for reviewing assessment procedures.

We recommend that government should develop the capacity to measure and report consumer outcomes.

We recommend that consumers' services should be funded through individual or family entitlements (vouchers).

We recommend that transparent pricing should be introduced for all disability and mental health services.

We recommend that consumer intermediaries should be funded according to outcomes and should be able to receive incentive payments for every consumer they enroll.

Further reading

Vern Hughes, 2006, *The Empowerment Agenda: Civil Society and Markets in Disability and Mental Health*, Institute of Public Affairs.

Productivity Commission, 2011, *Disability Care and Support: Productivity Commission Inquiry Report, Overview and Recommendations*, No. 54, 31 July 2011, Commonwealth of Australia.

Review social housing policy

Arguably the state government has a role in helping people satisfy their housing needs, whether by providing rental accommodation and offering rental assistance to those more in need or assistance to first home purchasers. The Department of Housing is responsible for the first and the Department of Finance for the second.

We acknowledge positive changes occurring within the Department of Housing and the difficulties associated with the states' fast growth. These do not excuse the inefficiencies and legacy of issues which still need to be addressed.

The commercial and welfare functions of Homeswest are so intertwined and so arcane that we are unable recommend a means by which to separate these functions, so as to improve the efficiency of the former and the equity of the latter. The diseconomies and inequities do, however appear to be substantial.

Another issue which relates more to the philosophy of the administrators (and Homeswest tenants themselves) is the length of tenure. Through changing the language and approach of the Department, the idea of temporary assistance could replace the expectation of permanent entitlement. However, this should not be done in a punitive way, as having safe and secure accommodation is an important precursor to stable

employment and general contributions to society. This is especially true for families particularly large working families who are not necessarily permanent consumers of public housing.

We recommend that the government should establish an enquiry into the activities of Homeswest with a view to employing public assets efficiently and directing welfare to those most in need.

We recommend that the government should separate Homeswest's commercial and welfare functions.

We recommend the government should sell off Homeswest land (and housing) and take welfare into the budget.

Further reading

Mike Nahan and Tony Rutherford (editors), 1993, *Reform and Recovery: An Agenda for the New Western Australian Government*, Institute of Public Affairs.

Improving housing affordability

The development of Western Australia is inhibited by the shortage and high price of land for homes. This circumstance is not the consequence of a natural shortage of suitable land, but rather, it is caused unnecessarily by government regulations and various land supply restrictions imposed by state and local authorities. Supply decisions can also be affected and impinged upon by property taxes.¹⁹

The arguments are well known. As of mid-2012, with the property market starting to show signs of recovery, housing affordability will become more difficult for home buyers including those in the much needed workforce.²⁰

Nevertheless, if regulations are relaxed land prices should decrease.²¹ Other large, growing Western cities, such as Houston in the United States, have been able to maintain cheap entry-priced homes on the fringe of the city. With considerably less regulation and planning restrictions, Houston continues to evolve. In Perth, land should be released at a faster pace for subdivision by reducing inhibiting and expensive town planning and environmental regulations. It could be achieved by limiting the use of housing block size restrictions; relieving restraints on infill land use; reviewing town planning regulation to reduce restrictions on land use; and reviewing the so-called Bush Forever and Swan Coastal Plan restrictions. It is often the

‘capture’ of such regulatory authorities by powerful vested interests, that leads to many of the delays to which we refer.²²

We believe there should be caution against the removal of unwarranted restrictions too quickly. This could cause land prices to fall and present highly mortgaged home owners and their lenders with a problem beyond their control. However, such rapid deregulation is unlikely to happen. There is an overwhelming case for reducing barriers to home ownership, especially to lower income earners.

We recommend that the government removes onerous planning requirements and allows land owners greater freedom to develop land as they see fit.

We recommend that the government reviews the impediments to the development of land for housing.

Further reading

BIS Shrapnel, 2012, *Residential Property Prospects, 2012-2015*, at: http://www.bis.com.au/reports/res_prop_prospects_r.html.

Alan Moran and Julie Novak, 2009, *The great lock out: The impact of housing and land regulations in Western Australia*, Institute of Public Affairs.

Louise Staley and Alan Moran, 2008, ‘Fixing the Crisis: A fair deal for homebuyers for WA’, in Richard Allsop, Ross Fox, Alan Moran, Matthew Ryan and Louise Staley, *A reform agenda for Western Australia*, Perth: Institute of Public Affairs and Mannkal Economic Education Foundation, Chapter 1. pp.1-16.

Review metropolitan public transport

The metropolitan rail system undoubtedly delivers some social benefits and patronage is growing. However, it does not come close to meeting its running costs, let alone the cost of servicing the capital investment. In 2012/13, public transport is forecast to be subsidised in the order of \$662 million by the taxpayer.²³

Fare increases are also unlikely to do much to alleviate this deficit. Despite the limited social benefits, now is not the right time to extend the network. While plans for the future gradual development of the city should be put before the public, in the short-term, the resources needed to build light or heavy rail extension may be directed to areas of greater need.

The community service obligations of the various elements of the metropolitan public transport system—rail and bus, or individual rail and bus services—should also be made explicit, with a view to their eventual privatisation.

We recommend that a plan is made for the eventual full privatisation of public transport services, with the subsidy broken down to provide more transparency for taxpayers.

We recommend against investing in expensive, capital-intensive public transport infrastructure.

Further reading

Department of Transport, 2011, *Public Transport in Perth in 2031: Mapping out the Future for Perth's Public Transport Network*, Government of Western Australia.

Mike Nahan and Tony Rutherford (editors), 1993, *Reform and Recovery: An Agenda for the New Western Australian Government*, Institute of Public Affairs, p.137.

Gareth Parker, 2012, 'Labor digs up 'sham' Budget', May 23, 2012, *The West Australian*, at: <http://au.news.yahoo.com/thewest/a/-/newshome/13754438/labor-digs-up-sham-budget/>.

Speed up port reform

The state's ports infrastructure services are vital to help facilitate economic growth, especially with regards to the export of bulk cargoes.²⁴ Like other major ports in the state, Fremantle Ports is publicly owned and lacks effective competition. The port where competition would be easily effected is Fremantle.

The dispute between James Point Pty Ltd and the government should be settled, in court if necessary. And the government must remove all unnecessary inhibitions to the development of container, bulk, liquid or general cargo facilities that are financed by private capital.

The government's approach to the development of Anketell port is appropriate and we believe a similar procedure should used elsewhere.

We note the Western Australia government is investigating proposals for a new container port in the coastal area from Naval Base to James Point, incorporating the inlet of Cockburn Sound between the Swan River at Fremantle and Cape Peron near Rockingham.

The Government's financial contribution to development of the Oakajee facility, which has faced lengthy delays and may never eventuate, should not be repeated.

We recommend that the government should call for expressions of interest in the purchase and management of publicly owned ports with a view to their sequential privatisation.

We recommend that the government should facilitate the private development of competitive facilities within and between ports.

Further reading

Department of State Development, 2012, 'Western Australian Economic Profile', Government of Western Australia, at: <http://www.dsd.wa.gov.au/documents/000663.mike.thomas.pdf>.

Fremantle Ports, 2011, *Fremantle Ports 2011 Annual Report*.

Expand school choice

Since 2008, we note significant progress has been made in the Western Australian public school system. This has been achieved most notably with the Independent Public Schools (IPS) initiative. Put simply, this empowering of parents and communities to take control of the education of their children has been a phenomenal success.

A benefit of the roll-out of the IPS initiative is that it changed the emphasis from class size to the retention of the best teachers, managed through principals and responsive to local communities. Teacher quality, along with recognition and reward for good performance, are far more important to the outcomes of student learning than class size.

The IPS has encompassed a remarkable geographical and socio-economic range of circumstances. We believe it should be gradually expanded until most of the public schools capable of managing themselves have achieved independence. We note, however, that the expansion of IPS should be measured, as too rapid expansion could lead to the risk of over-reach and administrative challenges. There will always be difficult postings where teacher pay should be adjusted to provide greater reward for teachers who accept these roles.

In the longer-term, there is a role for school vouchers, but initially this should be focused on disadvantaged children, for example, those with

PROJECT WESTERN AUSTRALIA

disabilities or with severe learning difficulties. This approach has been successfully adopted in the US state of Florida.

We recommend that the government continue to cautiously expand the Independent Public School concept, but does not rush the process.

We recommend the trial of school vouchers for a specifically targeted group of especially disadvantaged students, with the ultimate aim of expanding the concept across schools and facilitating the entrance of additional private providers.

We recommend a review of the possibility of charter schools once a voucher system has been implemented across the state.

Reduce limits on freedom of speech

Freedom of speech is one of the bedrock principles of Western liberal democracies. But free expression has been eroded in recent decades by a new class of restrictions on speech—that is, speech designed to protect citizens against ‘offence’.

Western Australia is governed by federal racial discrimination laws but it also has its own laws. The WA criminal code mandates three years imprisonment for possession of material for display, if that material likely is to racially harass, and up to fourteen years imprisonment for conduct intended to incite racial animosity or racist harassment.

Racist speech is to be deplored. But the solution to bad speech is more speech, not legal action. Making offense unlawful stifles freedom of expression. In 2009 a WA man received three years prison for an anti-semitic YouTube video. This penalty will do little to alter his views, and will do little to achieve multicultural harmony.

History has demonstrated that legally punishing expression has the effect of increasing acrimony, rather than reducing it. Removing the ‘right not to be offended’ from Western Australian law would protect freedom of expression.

We recommend that the government remove racial discrimination laws relating to speech from the criminal code.

We recommend the government audit Western Australian law for restrictions on freedom of speech with an eye to substantially reducing them.

Further reading

Chris Berg, *In Defence of Freedom of Speech: from Ancient Greece to Andrew Bolt*, Monographs on Western Civilisation, Institute of Public Affairs & Mannkal Economic Education Foundation, 2012

Review local government policy

Local government in Western Australia is essential to strong, participatory democracy. However, structural and operational deficiencies significantly detract from local government's optimal performance. It has become neglected (voter turnout is abysmal); haphazard (only a poor concept of its essential functions remains); amateur (part time councillors tend not to understand the proper constraints of economics and the rule of law); and prone to low levels of corruption (not because of its Councillors and staff, but because of discretion inherent in particularly planning law).

We have little doubt that local government would perform more efficiently if its participants had a better understanding of the requirements of their area of authority and of the proper constraints for all who exercise authority. This improved understanding would not completely remove the difficulties and problems within local government, but it should at least improve how the authorities exercise their power at minimal cost.

The roles taken on by local government has expanded. This is partly due to the greater number of responsibilities imposed by state and federal governments, but also because local governments have, increasingly subsidised entertainment and employed non-essential staff, such as sustainability managers. Such activities may appeal to vocal minorities, but we suspect most rate payers would sooner pay lower rates.

We recommend that local government amalgamation should not be forced.

We recommend that a short charter for local government be developed. It should omit the usual platitudes and outline in broad terms local government's only few essential roles, rule-of-law principles, fiscal responsibility, measures of efficiency, the limits of administrative ability and the inevitability of by-law's unintended consequences.

Further reading

Tony Rutherford, 1993, 'Local Government' in Mike Nahan and Tony Rutherford (editors), *Reform and Recovery: An Agenda for the New Western Australian Government*, Institute of Public Affairs, Chapter 10, pp.235-342.

Reconsider taxi regulation

The quality of the taxis services available in Perth and the major regional centres in Western Australia would benefit from decreased regulation of the taxi industry, particularly by removing taxi plate caps.

While approximately 700 of the 2,000 taxi plates issued by the Department of Transport are leased from the government at \$250.00 per week, the other plates on the market are privately owned. Private owners are able to charge drivers up \$82.10 per weekday shift and \$112.50 for a peak period weekend shift for use of the taxi, and this lease rate excludes dispatch service and fuel costs. This makes private ownership of plates a lucrative investment, particularly since there is a great shortage of taxi plates and previous governments have only made token plate releases, which have failed to expand the market and correct the inefficiency. The current selling price of a taxi plate is around \$300,000. The costs are invariably passed onto Perth consumers, resulting in an avoidance of taxi services and discontent within the community.

The Perth taxi industry could also be improved by the removal of restricted-area plates.

We recommend that the Government should continue to increase the supply of taxis by pre-announced steps until the cost of taxi plates

is reduced to the administration cost. If this occurs, the Government should provide compensation to private owners.

We recommend that the Government begin selling a proportion of plates issued to drivers on time payment as opposed to leasing.

Further reading

David Seymour, 2009, 'Who owns Taxi Licences?', Frontier Centre for Public Policy, at: <http://www.taxi-library.org/who-owns-taxi-licenses.pdf>

Department of Transport, 2011, 'Restricted-Area Taxis', Government of Western Australia, at: <http://www.transport.wa.gov.au/taxis/15224.asp>

Department of Transport, 2012, 'Taxi Action Plan Progress Report', Government of Western Australia, at: http://www.transport.wa.gov.au/mediaFiles/taxis_TaxiActionPlanProgressRpt.pdf

Richard Allsop, Ross Fox, Alan Moran, Matthew Ryan and Louise Staley, 2008, *A reform agenda for Western Australia*, Perth: Institute of Public Affairs and Mannkal Economic Education Foundation, p.27.

Troy Buswell, 2011, Ministerial Statement, 29 September 2011, at: <http://www.mediastatements.wa.gov.au/Pages/WACabinetMinistersSearch.aspx?ItemId=144588&minister=Buswell&admin=Barnet>

Speed up the granting of liquor licenses

Liquor licensing in Western Australia remains too restrictive, costly and time consuming. It is mandatory for owner of any business selling liquor to have a licence from the Department of Racing, Gaming and Liquor. Licensing is governed by the Liquor Control Act 1988 and the Liquor Control Regulations 1989, which, according to the Department, have the primary purpose of regulating the sale, supply, and consumption of alcohol in protection of the public interest. Its requirements are subject to interpretation, and at times the refusal of liquor licenses appears arbitrary. The service of liquor at an establishment must be deemed to be in the public interest. However, judging what constitutes the public interest- a somewhat subjective concept. If an applicant is refused a licence, then they must wait three years before applying again for the same premises.

With new business ventures in Perth's hospitality industry subject to the Department's interpretation of the 'public interest,' many entrepreneurs are likely to fail their first application. The compulsory three-year waiting period before re-application is not only a needlessly excessive penalty, but surely turns potential investors away.

We recommend liquor licencing restrictions for small bars be relaxed.

We recommend that the three-year re-application clause for small bar licences be abolished.

Further reading

Department of Racing, Gaming and Liquor, 2011, *Policy: Small Bar Licences, Government of Western Australia*, at: <http://www.rgl.wa.gov.au/ResourceFiles/Policies/SmallBarLicences.pdf>.

Department of Racing, Gaming and Liquor, 'A note from the Director General on applying for a liquor licence', Government of Western Australia, at: http://www.rgl.wa.gov.au/ResourceFiles/Media/Note_from_Director_General_on_applying_for_licence.pdf.

Liquor Commission of Western Australia, 2008, *Legislation, Government of Western Australia*, at: <http://www.liquorcommission.wa.gov.au/Default.aspx?NodeId=4>.

Liquor Control Act 1988, Government of Western Australia, at: <http://www.rgl.wa.gov.au/Default.aspx?NodeId=145>.

Continue deregulation of shopping hours

Retail trading hours south of the 26th parallel are governed by the often amended Retail Trading Hours Act 1987. Recent amendments have been a step in the right direction towards completely deregulating shopping hours. On December 9, 2011, the Australian Productivity Commission, released its final report and recommended full deregulation. Similarly, an independent study by Tracey Atkins of the University of Western Australia concluded that long-term consumer interest was best served by deregulating shopping hours. Why shouldn't people shop when they want?

We recommend that shopping hours should be fully deregulated and left to the discretion of the buyer and seller.

Further reading

Geoff Hogbin, 1983, *Free to Shop*, Centre for Independent Studies.

The University of Western Australia, 2011, 'Deregulated shopping hours will benefit consumers', at: <http://www.news.uwa.edu.au/201112124242/research/deregulated-shop-trading-hours-will-benefit-consumers>.

Productivity Commission, 2011, *Retail Trading Hours Regulation*, at: http://www.pc.gov.au/__data/assets/pdf_file/0006/113775/13-retail-industry-chapter10.pdf.

Limit and remove regulation

The requirements of red and green tape and delays inherent in applying to, and complying with, regulation impose substantial costs upon urban land release, mining development, agricultural production and the establishment of manufacturing activity.

Employment is avoided because of the uncertainty, complexity and onerous requirements of industrial law, often by the choice of larger machinery in lieu of a larger workforce. The cost of most activities, from building houses to enjoying a restaurant meal, are increased significantly. New productive technology, such as Genetically Modified crops, is denied to Western Australian industry.

Good regulation mitigates spill-over costs and reduces the need to incur the cost of discovering the reliability of goods and services. However, no regulation is without some cost which is passed on to consumers or, particularly in the case of export industries, borne by production. The cost should never be permitted to exceed the benefit nor unduly inhibit the entry of new entrepreneurs, for example in the taxi industry.

We recommend every new regulation should be accompanied by an impact statement and standing regulations should be reviewed periodically.

We recommend agricultural regulation which inhibits productivity improvements be removed, including abolishing the potato marketing board.

Further reading

Chris Berg and Christopher Murn, 2009, *Over-ruled: How excessive regulation and legislation is holding back Western Australia*, Institute of Public Affairs and Mannkal Economic Education Foundation, at: http://www.ipa.org.au/library/publication/1245206812_document_over-ruled-regulationinwa.pdf .

Productivity Commission, 2012, *Business Regulation Benchmarking: Role of Local Government as Regulator*.

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4. Colin Barnett, 2011, Premier's Statement, February 15, 2011, at: http://www.premier.wa.gov.au/Ministers/Colin-Barnett/documents/BriefMinisterialStatements/bmsCBarnett_20110215.pdf.
5. Cited in Louise Staley, 2007, *Reshaping the Landscape: The Quiet Erosion of Property Rights in Western Australia—Project Western Australia Discussion Paper*, West Perth: Institute of Public Affairs and Mannkal Economic Education Foundation
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7. Standing Committee on Public Administration and Finance, 2004, *The Impact of State Government Actions and Processes on the Use and Enjoyment of Freehold and Leasehold Land in Western Australia*, Legislative Council of Australia, Second Session of the Thirty-Sixth Parliament.
 8. Chris Berg and Christopher Murn, 2009, *Over-ruled: How excessive regulation and legislation is holding back Western Australia*, West Perth: Institute of Public Affairs and Mannkal Economic Education Foundation, at: http://www.ipa.org.au/library/publication/1245206812_document_over-ruled-regulationinwa.pdf.
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 10. Department of the Treasury, 2010, *Australia's Future Tax System—The 'Henry Tax Review'*, Commonwealth of Australia.
 11. Department of Treasury, 2011, 2011-12 Budget Fact Sheet, Government of Western Australia, at: www.treasury.wa.gov.au/.
 12. For a breakdown of the regional allocation of the funding, see Department of Regional Development and Lands, 2011, *Royalties for Regions 2011-12 Budget: Estimated Regional Breakdown*, Government of Western Australia.
 13. Economic Regulation Authority (ERA), 2008, *Inquiry on Competition in the Water and Wastewater Services Sector*, at: http://www.erawa.com.au/2/692/46/inquiry_into_competition_in_the_water_and_wastewat.pm.
 14. While there are no legislative constraints on private entities applying for access to water and wastewater networks (which can be done under the Trade Practices Act 1974), the process is extremely time consuming, laborious and potentially costly. See *ibid*, p.67.

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17. Ross Fox, 2008, 'Taking the Pulse: Reforms Initiatives for the WA Health System', in Richard Allsop, Ross Fox, Alan Moran, Matthew Ryan and Louise Staley, *A reform agenda for Western Australia*, Perth: Institute of Public Affairs and Mannkal Economic Education Foundation, Chapter 6, pp.87-109.
18. Productivity Commission, 2011, *Disability Care and Support: Productivity Commission Inquiry Report, Overview and Recommendations*, No. 54, 31 July 2011, Commonwealth of Australia.
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20. BIS Shrapnel, 2012, *Residential Property Prospects, 2012-2015*, at: http://www.bis.com.au/reports/res_prop_prospects_r.html.
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24. For instance, in 2010-11, 55 percent of Western Australia's GSP was accounted for by the exports of goods and services. See Department

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of State Development, 2012, 'Western Australian Economic Profile', Government of Western Australia, at: <http://www.dsd.wa.gov.au/documents/000663.mike.thomas.pdf>.

