TAKING ON VESTED INTERESTS TO FUND THE FUTURE

Greens plan for paying for infrastructure without privatisation or unsustainable debt

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The Greens today announced revenue measures that would fund the repayment of $20 billion of investment in new public transport, schools, hospitals, housing and other social infrastructure, without privatisation or running up unsustainable debt.

The Greens propose to restore taxation measures worth $950 million a year on property speculators and poker machines in the large clubs that were introduced by former Labor Premier Bob Carr in 2004 and and then axed by his successor, Morris Iemma, in 2006.

Together with $400 million a year from maintaining the stamp duties on business transactions (the "IGA taxes") that were scheduled to be abolished, a loan of $20 billion can be paid back over a twenty year period, using conservative estimates of interest rates.

The vendor duty would not apply to the family home or farm and would help prevent first home buyers being priced out by another housing bubble.

Rescinding Morris Iemma's tax cut for the most profitable clubs would reduce the money available to them to expand and further concentrate poker machines in areas with high incidences of problem gambling.

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TAKING BACK THE TAX CUTS

- **Reinstate the Vendor Duty –** This would apply to the sale of all land other than owner-occupied homes and family farms, where the value since purchase has increased by more than 12 percent. The duty was designed to address the combination of capital gains and negative gearing tax concessions introduced by the Howard Government.
  Revenue: $645 million averaged over four year forward estimates
- **Restore marginal poker machine tax rates** at clubs with profits of more than $1 million a year to the level set by Labor in 2004 (a sliding marginal scale from 25 percent on $1 million to $5 million of profits to 40 percent on profits over $10 million).
  Revenue: $310 million per annum averaged over four year forward estimates
- **Maintain the stamp duties on certain business transactions** (the "IGA" taxes) which are scheduled to be abolished in July 2016. These include stamp duty on business mortgages, unlisted marketable securities and transfer duty on non-real business transfers. The duties are forecast to raise $381 million in 2016/17 and $403 million in 2017/18.
  Revenue: $400 million per annum averaged over four year forward estimates
- ***Total revenue: $1.355 billion per annum***

BORROWINGS

$20 billion at 3.25 percent, paid back over 20 years at $1.35 billion a year.
The rate is deliberately conservative, compared to the current 10-year Waratah bond rate of 2.75 percent which would require annual repayments of $1.3 billion. Phased borrowing over the 20 year period would increase the total amount of capital that can be sustainably raised.

Infrastructure investment included

Schools, TAFE colleges and hospitals	$4.5 billion
Social (including public) and affordable housing	$4.5 billion
Public transport (new projects, not yet announced)	$4.5 billion
Renewable energy package (already announced[1])	$2.75 billion
Large scale solar and other renewables	$2.25 billion
Sports and recreation	$1.5 billion
Other social infrastructure, focused on jobs creation	$2.75 billion
Total	**$20.0 billion**

Note: With the exception of the renewable energy package, these are all new projects, with details to be announced over the next three weeks. Other transport options announced in January are funded from redirecting existing funds, not from Rebuilding NSW "asset recycling".

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MEDIA COMMENTS

Greens NSW MP John Kaye said: "NSW deserves better than the false choice between a government that will privatise community assets and an Opposition that will under-invest in the future.

"Governments can grow the revenue base and use the funds to create real jobs and a resilient economy, supporting vibrant communities across the state.

"The Liberals and Nationals and the Labor Party cannot see beyond a very limited palette of traditional economic options.

"Hemmed in by the vested interests, they only offer the choice of crumbling assets or the loss of control over the future of the electricity industry.

"Premier Mike Baird is obsessed with privatisation, while Labor lacks the courage to tax unearned income and gambling revenue.

"The Greens are not afraid to stand up to the developer lobby, land speculators and cashed-up mega-clubs because it means we can rebuild the state without cannibalising critical public assets.

"The Greens are offering new public investment, not a fire sale, and a sustainable and fair plan to fund it.

"Returning to the worst of Labor's 16 years' record of failing to invest in the state would only be marginally better than Mike Baird's plan to sell an income bearing asset and sacrifice households across NSW to giant multi-national energy corporations.

"Premier Mike Baird is not capable of offering real solutions to congestion, crumbling schools and hospitals and declining social infrastructure without selling off assets.

"After 9 years in office, former Labor Premier Bob Carr and his Treasurer Michael Egan finally realised that real money had to be found from those who could most afford to pay for the state's future.

"Following significant increases in house prices after the Howard-Costello Government halved capital gains tax rates, NSW Treasury recognised the need to address growing negative gearing at the state level.

"Under the lead of Morris Iemma, Labor had no appetite for a battle with wealthy property speculators and cashed-up clubs.

"Labor had received over $8 million in donations from property interests in clubs in the same term of office.

"Premier Iemma preferred to slash public services and investment and embark on a power privatisation push that ended up with the gentrader debacle.

"Bringing an end to the politics of privatisation and 'asset recycling' will need much more work than just saying 'no'. It will require a plan to restore the state's tax base.

"Sydney is at risk of experiencing another property bubble, at the same time unemployment is rising.

"A whole generation of younger Australians is being locked out of homes and jobs. Our plan will mean investment in real infrastructure and employment, not in speculation.

"Labor cannot be allowed to sell NSW short with a cut-price infrastructure plan and the Liberals and Nationals should not be allowed to sell the state out to energy multinationals.

"The Greens offer $20 billion of new infrastructure, more affordable homes, new jobs and a brake on the expansion of the pokie palaces and the problem gambling they cause. And we can do it without power privatisation or financial sleights of hand," Dr Kaye said. *For more information: John Kaye 0407 195 455*

BACKGROUND

Vendor Duty

In 2004, Treasurer Michael Egan introduced a vendor duty[2] of 2.25% on the sale price of investment properties, paid by the vendor. Owner-occupied homes and farms were exempt and the duty only applied if the value of the property increased by more than 12 percent since purchase. The duty was levied on a sliding scale depending on the size of increase in value. The full 2.25 percent was only applied to properties that increased by more than 15 percent.

Following significant increases in house prices after the Howard-Costello Government halved capital gains tax rates, NSW Treasury recognised the need to address growing negative gearing at the state level.

By putting a duty on vendors, the benefits of speculation were reduced, thus taking the edge off housing price bubbles and giving first home buyers a much better opportunity to purchase on a more level playing field with speculators.

At the time, Treasurer Michael Egan said[3] of the vendor duty and the decision to remove stamp duty for first homes worth less than $500,000:

"We are tipping the balance in favour of first-home buyers and at the same time taking a bit of the heat out of the investment property market."

The Liberal-National Opposition raised concerns that rents would increase.

The Greens are planning to invest more than $4.5 billion in affordable and social housing which will ease housing stress for low income families and take pressure off the rental market, while supporting jobs in the construction industry.

Restoring the Vendor Duty will help to rebalance the NSW economy. With unemployment now over 6 percent the Reserve Bank has been confronted with a dilemma[4]: how to stimulate job growth without fuelling a renewed property bubble in Sydney. The Greens' package offers a unique response: ensuring that lower interest rates and new spending will stimulate jobs, not speculation.

The revenue that would be raised by a modern vendor duty can be estimated from the last budget figure for Treasurer Egan's duty. In the 2006/07 budget[5], the predicted revenue loss for 2009/10 from the cancellation of the vendor duty was $450 million.

Applying an annual 4.8 percent growth rate leads to $600 million for 2015/16, rising to $692 million for 2018/19, averaging to $645 million over the four year period.

Poker machine taxes

Taxes collected on profits made by electronic gaming machines in registered clubs will this year provide $708 million in revenue, rising at 3.5 percent each year to $787 million in 2017/18[6].

Tax rates in clubs are significantly less than in hotels, with the tax expenditure (revenue foregone because of the discount given to clubs) estimated by Treasury to be $815 million in 2014/15[7].

The Greens propose to increase the total revenues collected by about 40 percent, gained entirely from the larger clubs with profits over $1 million a year, by raising the top marginal rates to those set by Treasurer Egan in 2003/04[8].

The top marginal rate is currently 26.55 percent for clubs with profits over $1.8 million a year[9]. We would increase it to 40 percent.

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By analysing the losses of revenue estimated when the tax measures were reversed in the 2006/07 budget, the average revenue gain over the four year forward estimates period is about $310 million a year[10].

Increasing the tax on poker machines in large registered clubs will reduce the amount of money available to them to grow and, in particular, to purchase poker machine entitlements from other, smaller and less profitable clubs.

Profits on each gaming machine rise dramatically with the number of machines in the venue.

Registered clubs do not pay income tax or dividends. Thus the massive profits made by the already very large clubs, with no place else to go, drive substantial investment in expansion.

While it can be argued that growth in non-gambling facilities at clubs provides a community benefit, the concentration of poker machines in large venues in areas with concentrations of socio-economic disadvantage will increase problem gambling.

By increasing the electronic gaming machine tax collected on the larger clubs, the ability to aggregate poker machines will be reduced, placing downward pressure on problem gambling.

Borrowing

Public borrowing of large sums of money to invest in worthwhile infrastructure does not damage an economy, provided a sustainable revenue source is identified to service the loan.

Both Labor and the Coalition are captured by small-government ideology that allows the available financing options to be constrained by the rating agencies.

The Greens propose to borrow at least $20 billion, serviced by new revenue streams that are socially progressive and sustainable.

The assumed interest rate of 3.25 percent is deliberately conservative, compared to the current 10-year Waratah bond rate[11] of 2.75 percent which would require annual repayments of $1.3 billion. The three bond rate of 1.75 percent.

Phased borrowing over the 20 year period would increase the total amount of capital that can be sustainably raised.

Why privatisation is bad

Privatisation is unpopular with NSW voters for good reasons.

A publicly-owned asset or undertaking would only be worth more to a potential private sector owner than to governments if one of the following were true:

Control allowed the new owner to exert increased market power, either because of the absence of political constraints (for example, the threat of voter backlash over higher power prices) or because of joint control over other assets (for example, reducing competition in the industry). The inevitable result would be higher prices for consumers. In this case, privatisation is equivalent to imposing a highly inefficient and regressive tax on future consumers.

Private sector management is able to extract greater efficiencies than public sector management. There is no reason why public sector managers cannot achieve the same levels of technical efficiency as the private sector. Thus any gains would be in exploitation of the workforce. In this case, privatisation becomes a regressive tax on the employees, paid as lower wages, reduced working conditions or curtailed career opportunities.

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Private sector ownership avoids community service obligations, such as workforce training, discounts to low income consumers or the maintenance of high quality assets and services. In this case, the cash benefits of privatisation are paid for either a loss of benefits or future governments being required to pay for compensatory services (e.g. training workers, providing bill support).

The private sector owner is prepared to accept more risk on future revenues being lower than forecasted. However, there is no reason for any private corporation to be either better at revenue forecasting than public sector management or to have greater capacity to accept fluctuations. In fact, the opposite is true.

The private sector can access cheaper capital than the public sector. This is almost always not true, given the superior credit ratings of state governments and the de facto underwriting of state sector borrowing by the Commonwealth.

Consequently if the purchaser is prepared to pay more than the value of the projected future income stream to government, it is largely because they are planning to exploit consumers or the workforce or reduce or eliminate the services they deliver to the community.

In addition, privatisation or partial privatisation transfers income tax equivalent payments that are currently collected by the state to the Commonwealth. As state-owned enterprises do not pay Commonwealth corporate income taxes, the NSW government imposes a 'tax equivalent' , supposedly to create a level playing field with private sector competitors.

The wires and poles currently pay $324 million a year in tax equivalents, scheduled to fall to $297 million in 2017/18, and dividends of $848 million, scheduled to fall over the same period to $416 million[12] .

Privatisation is no magic pudding. Whatever sale price the Baird-Grant government extracts for the wires and poles will never be greater than the long term income from dividends and state taxes that will be lost forever. NSW will be poorer while the merchant bankers and the multinational energy giants grow rich at this state's expense.

In the end, households will pay more, inflicting yet more bill stress on those who can least afford it. Privatisation is the most unfair and regressive way of funding new infrastructure.

The next two decades will be times of massive change, as ever-cheaper roof top solar, household energy storage options and demand side responsiveness challenge the old ways of doing business.

The private owners of the wires and poles will create massive barriers to the environmentally and socially essential transition to renewable energy and cutting waste. They make their profits out of trapping consumers into expensive centralised coal and gas fired electricity.

Public ownership allows the flexibility to create a new energy supply industry that allows households to cut their bills and their greenhouse gas emissions by becoming partners in the smart energy systems of the future.

Premier Mike Baird's plans to pass control of much of the electricity network to private hands would create political and financial barriers to the remaking of the network.

Private owners would strenuously resist any changes that interfere with their capacity to make substantial profits and would refuse to make the investments needed to create the smart 21st century grid.

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References

[1] http://nsw.greens.org.au/energy

[2] http://www.real-estate-australia.com.au/agts/382/Image/Vendor%20Duty%20-%20An%20Overview.pdf

[3] http://www.smh.com.au/articles/2004/04/07/1081222477449.html

[4] For background see: http://www.smh.com.au/business/the-economy/no-economic-benefit-in-further-surge-in-house-prices-economists-warn-rba-20150302-13ssey.html

[5] Table 3.3 of http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0010/4051/bp2_3.pdf

[6] Table 6.5 of http://www.budget.nsw.gov.au/__data/assets/pdf_file/0015/124314/Ch_6.pdf

[7] Page D-19 of http://www.budget.nsw.gov.au/__data/assets/pdf_file/0014/124322/App_D.pdf

[8] Table 3.3 of http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0008/2150/bp2_3.pdf

[9] http://www.olgr.nsw.gov.au/gaming_info_taxrates_regclubs.asp

[10] In the 2003/04 budget, Treasurer Eagan proposed to phase in increases to the tax rates. The top marginal rate that applied to profits over $10 million was 17.16 percent in 2003 and was scheduled to increase to 40 percent by 2010.

The measure was cancelled in the 2006/07, with revenue impacts across the forward estimates period growing at an increasing rate to $139 million loss by 2009/10.

Extrapolating forward for two more years of increasing revenue loss yields an estimate of $258 million in 2011/12 (the year in which Egan's tax increases would have reached their full impact). Applying the average growth rate of 3.5 percent yields a tax loss of $296 million in 2015/16 rising to $328 million in 2018/19. This averages to $310 million over the forward estimate period.

[11] https://www.waratahbonds.com.au/html/rates.cfm

[12] http://www.budget.nsw.gov.au/__data/assets/pdf_file/0015/124314/Ch_6.pdf

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