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Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON EMPLOYMENT,  
EDUCATION AND WORKPLACE RELATIONS

**Reference: Employee share ownership in Australian enterprises**

THURSDAY, 26 AUGUST 1999

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON EMPLOYMENT, EDUCATION AND WORKPLACE**  
**RELATIONS**

**Thursday, 26 August 1999**

**Members:** Dr Nelson (*Chair*), Mr Barresi, Mr Bartlett, Dr Emerson, Ms Gambaro, Mrs Gash, Ms Gillard, Mr Katter, Mr Sawford and Mr Wilkie

**Members in attendance:** Mr Bartlett, Dr Emerson, Ms Gambaro, Dr Nelson, Mr Sawford and Mr Wilkie

**Terms of reference for the inquiry:**

The extent to which employee share ownership schemes have been established in Australian enterprises and the resultant effects on:

- (a) workplace relations and productivity in enterprises; and
- (b) the economy.

**WITNESSES**

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**Committee met at 9.04 a.m.**

**HORNE, Dr James, General Manager, Macroeconomic Policy Division, Treasury**

**LONSDALE, Mr John Peter, Manager, Labour Market Unit, Treasury**

**LYNCH, Mr Phillip John, Analyst, Treasury**

**CHAIR**—I declare open this public hearing of the inquiry into share ownership plans and welcome the representatives of the Department of the Treasury who are here today to give evidence. I remind you that the proceedings here today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The deliberate misleading of the committee may be regarded as a contempt of the parliament. The committee prefers that all evidence be given in public, but if at any stage you wish to give evidence in private, you may ask to do so and the committee will consider your request. Could you now give us an overview of the Treasury perspective on any aspect of this issue that you think you are able to.

**Dr Horne**—I will begin by making some general remarks and then we will be quite happy to take any questions that you have. The committee has already been presented with detailed information about the purpose and operation of employee share ownership schemes in Australia. It is not my intention to traverse this ground in detail, but rather to make a few broad comments on a number of issues. Before doing this I would make the general point that it is clear that ESOP arrangements are an integral part of the government's strategy to improve workplace relations, competitiveness and productivity.

I will touch on three issues: productivity, national savings and the role of government. Before touching on these areas, I would note that a number of the submissions to the committee have raised specific proposals to modify existing laws that govern employee share ownership arrangements. My remarks will attempt to provide a framework within which such proposals can be examined, rather than to discuss the merits of each proposal. In broad terms, this involves weighing the costs against the likely benefits and consideration of who is likely to benefit. The comments need to be seen in the context of the limited data and coverage that make it difficult to draw conclusions on some macroeconomic issues.

In relation to tax issues arising from the review of business taxation, as the government is currently considering the review's report, if it is all right with the committee we will not be discussing those issues here.

**CHAIR**—Does that include 13A; you will not discuss that?

**Dr Horne**—I think tax issues per se. We do not have any tax specialists here today and, given their sensitivities, I think at the moment they are pretty much off-limits to us.

**CHAIR**—Okay.

**Dr Horne**—Let me turn to the first issue: productivity. A key argument advanced in support of establishing employee share ownership arrangements in Australia is the prospect

of improved productivity stemming from a closer alignment of employee, employer and other shareholder interests. It would be reasonable to say that a central goal of most Australian schemes is to enhance work force performance. As you know, the Australian economy has experienced very strong productivity growth during the current economic upturn, well above its long-term average growth rate. Labour productivity has averaged around three per cent per year since 1993-94, compared with about 2¼ per cent since 1964-65, so it is well above the long-run average.

I would refer the committee to statement 3 of this year's Budget Paper No. 1, pages 3.16 to 3.18, for a discussion of the factors that appear to have underpinned this surge in productivity growth during the 1990s. As noted in that document, we consider that labour market reforms over the 1990s, and in particular those since 1996, have made a solid contribution to this better performance. There have no doubt been many individual companies in which employee share ownership schemes have made an important difference to productivity during this time, but I would have to say there is no aggregated evidence on this.

As some earlier witnesses have pointed out, there is a body of international research on the relationship between company performance and employee share ownership arrangements but less work is available on the Australian experience with these schemes. Having said that, some studies indicate that a positive relationship exists between the presence of employee share ownership schemes and key performance measures.

Many factors can influence productivity in company performance. For example, one factor that could help explain improved company performance is the level of employee participation in decision making in a firm. The participation of employees in decision making encourages cooperative behaviour and motivates employees to improve their work effort. Evidence suggests that greater employee participation usually leads to improvements in performance. Employee share ownership schemes are one aspect of employee participation in firms.

A final key point here is that the 1996 Workplace Relations Act encourages employers and employees at the enterprise level to negotiate arrangements that best suit their individual workplaces. The government's approach of being strongly supportive of employee share ownership schemes is against this background. Firms are better able to utilise the framework that is in place if they so wish. Many have done so, and from the evidence presented to this committee employee share ownership schemes are being promoted by some very active private sector organisations. These firms and the schemes themselves have a useful role to play.

Let me now turn to national savings. Some proponents of employee share ownership arrangements suggest that these schemes raise the level of national savings. On this basis they would argue that additional financial incentives are often championed to encourage the spread of employee share ownership arrangements. The main point to be made here is that the impact of employee share ownership arrangements on national savings is not clear. There are two issues here: firstly, whether these arrangements create new private savings; and, secondly, if private savings increase, whether it is at the expense of public saving.

In looking at this issue we perhaps need to refresh our memory about what we know of participation in these schemes in Australia. From the very incomplete data set that is available, there seems to have been a gradual rise in the number of employee share ownership arrangements established in Australia. However, this growth appears to have been largely restricted to larger publicly listed companies, which the Australian Employee Ownership Association notes accounts for only around 13 per cent of the work force. These schemes do not seem to have penetrated much of the world of smaller companies and, of course, do not apply to public sector organisations. Moreover, it would seem that the greatest use of share ownership arrangements is by company senior executives and only a small proportion are more widely available to all employees.

The policy changes seen in recent years and the Corporate Law Economic Reform Program Bill that is currently before the Senate should facilitate a wider spread of schemes in the future. The report by Dr Vince FitzGerald on employee share ownership schemes—which, I think, has been noted by a number of witnesses before the committee—suggests that some forms of employee share ownership schemes have potentially valuable effects in generating net additional flows of voluntary financial saving. At this point we do not have good evidence on this issue one way or the other.

Let me now turn to the third area, the role of government. There would appear to be two possible roles for government. The first role is to remove regulatory imposts on firms and individuals that may impede the growth of employee share ownership schemes. As we have already noted, employee share ownership schemes play a role in a decentralised workplace relations system and as part of a group of strategies to improve a firm's productivity and competitiveness. Essentially, that is a decision for firms and their work force. The government supports a greater participatory role for employees in the management of their organisations and is putting in place a range of policies to achieve this objective. At the broader level, the workplace relations system is likely, over time, to promote the establishment of employee share ownership arrangements. In particular, the greater focus on the requirement of the individual enterprise, the flexibility to tailor remuneration packages and the reduced role of uninvited third parties should provide additional impetus to increase the spread of employee share ownership arrangements.

The government has in place mechanisms to provide relief from regulatory requirements for companies and listed entities. The Australian Securities and Investment Commission provides conditional relief from prospectus requirements for smaller companies and unlisted entities. Prospectus requirements, which have been mentioned by quite a number of people who have appeared before the committee, will be reformed as part of the corporate law economic reform program. In particular, the reform will facilitate small-scale share issues. While these reforms will not exempt employee share ownership schemes from all prospectus requirements, they will achieve a better balance between the competing objectives of providing investor protection and minimising administrative and compliance costs.

The second potential role for government is by way of financial incentives. As is well known, in the 1996-97 budget the government promoted the establishment of these employee share ownership arrangements by amending division 13A of the Income Tax Assessment Act. This increased the concessional treatment of shares, or rights acquired by an employee through share ownership schemes, at less than market value. The government has also

promoted employee share ownership during the sale of government business entities such as Telstra. The committee has heard a number of proposals to expand existing financial incentives provided by the government and as with any proposals of this nature those groups advocating additional financial incentives need to demonstrate that these incentives will generate net public benefits. That is all I would like to say by way of introductory remarks but we are happy to take questions from the committee.

**CHAIR**—Thank you for being here and presenting what you have done and being prepared to answer questions. I would just like to go back to this question of productivity. I also read the budget papers and the Treasury and government view about why we have improvements in productivity. However, in terms of the lack of evidence, it stands to reason that if employees have some degree of ownership over the company in which they work they are more likely to be more productive and, anecdotally, that has certainly been my experience from the companies I have visited. Have you given any thought to how we could actually measure that? What sort of research models could we apply? Ten years from now, we do not want people sitting around saying, ‘It was a good idea but it’s a pity that we can’t prove that it’s contributed to productivity.’

**Dr Horne**—No, I have not developed any detailed research proposals on that. I guess there would be a number of ways you could go about it: you could survey companies, find out whether the purpose of the scheme is to improve productivity, and you could do surveys of the individuals. The difficulty is probably with ascertaining the link between, ‘Yes, we think it’s for the purpose of improving productivity,’ but then establishing that it was the scheme itself that resulted in the increase in productivity rather than, for example, the fact that company work practices improved over time, that technology in the firm was such that it improved. But if you are examining a workplace, there would be quite a number of difficulties and I suspect that is the reason why there has been very little around on that subject.

**CHAIR**—Obviously, there will be recommendations made from this inquiry, but do you think that one of those recommendations should include government and industry support of some research that actually examines the impact of changes, including those on productivity?

**Dr Horne**—One could certainly look at the question but I am not sure that if one looks at the international literature—and Mr Lonsdale can help me here if he has anything to add—it has shown us that we are likely to make good progress here. That would be my judgment on what the literature has told us. If you look at the literature over the past 20 years, one can look at the countries in question and it does not really give you great confidence that you could design a study that might convincingly establish one way or the other.

**Mr Lonsdale**—I think that is right. Can I just underscore the point that Dr Horne made before. In other surveys related to stripping out productivity effects we have experienced that it can be very difficult to link the particular measure to what is causing it.

**CHAIR**—Of course, productivity relates to the whole range of things. We have heard people anecdotally say, ‘Look, the companies that had employee share ownership plans emerged from the recession in better shape.’ Is it because of the plan or is it because the

plan is indeed just part of a broader culture in that particular company that is more forward looking? As we have gone through, we have had people who have had conflicts with the ATO—but, of course, they are not alone in that regard—and we have had the Employee Ownership Association talking about some of their frustrations.

One of the suggestions put to us relatively early was that there needed to be some standing authority or committee or something which brings together Treasury, the ATO, government, business and unions so that there is an interface there which enables some of the policy issues to be discussed and resolved with recommendations being put to government. We have had people who have been trying to run employee share ownership plans or develop them who have come up against what they would describe as a brick wall with the tax office, for example. Is there merit in that?

**Dr Horne**—I guess it is really for others to say whether there is merit in the establishment of these schemes, some sort of advisory group or not. I think the main thing that I could say is that at the moment there are a number of very useful groups that the Australian Taxation Office has already established which you may well be aware of, one being the National Tax Liaison Group and another group called the Corporate Consultative Committee. I would imagine that both of those already provide forums in which these sorts of issues could be raised.

**CHAIR**—There is already a precedent but the principle seems sound. I noticed recently that one of the senior government members suggested that for Australia to be internationally competitive in emerging industries, in particular the IT sector, company tax rates are important, our capital gains tax regime and how it compares with other countries is important, but share options are becoming increasingly important—in fact, it was suggested there was a degree of urgency in this regard. Have you given any thought to Australia's competitive position with the rest of the world in sunrise industries, such as IT, because of our current approach to employee share ownership plans?

**Dr Horne**—Not specifically, no.

**CHAIR**—Mr Lonsdale, you have spent a bit of time looking at some of these issues. As you quite rightly said, employee share ownership at the moment is really confined to those larger public companies, but a lot of these start-up companies that are in these emerging industries that have enormous potential in biotechnology and information technology have limited cashflows. Employees in the global labour marketplace are actually looking for share options as much as they are looking for a good income stream. Whether it is because of prospectus rules or the way in which 13A functions, at the moment we do not have small companies that are offering share ownership plans. Is that something that you are concerned about and is it something that you believe that the government ought to be doing something about?

**Dr Horne**—On the latter point, whether the government should be doing something about it, I think we will pass on that part of the question. You mentioned the prospectus rules and I think I mentioned the legislation which is before the Senate and has been through the House, and you are probably fully across it. That should make a difference. It will not make a difference overnight but over a number of years you should be able to see a material



difference. I would come back to the point I made about the changing face of workplace relations. The additional choice that is available to firms and employees these days really means an individual workplace and its employees can sit down and work out what arrangements they see as most useful to themselves. They are not bound by traditional wage arrangements; they can sit down and come to agreements about share schemes amongst themselves. The case would need to be made as to why—and you mentioned a particular industry—you would single out a particular industry over other industries.

**CHAIR**—Just before I invite my colleagues to ask you questions, in terms of changing the workplace culture, you have seen many of the submissions and the things that have been recommended to us. A number of these recommendations have implications for tax expenditures and there have been revenue implications as well. Are there some recommendations that have been put to us which would have significant implications for tax expenditures and about which you would have some concerns, as custodians of the public purse?

**Dr Horne**—I said at the outset that I would prefer, with the indulgence of the committee, to avoid going into tax issues. When it looks at any proposal, clearly the government will look at the costing of these things. For example, you will notice that we have not been able to cost effectively the current arrangements in the annual tax expenditure statement which you have probably had a look at. You will see there is an ‘NA’ beside the cost; we simply do not have the data, the wherewithal, to cost these arrangements at this point in time. It is very difficult to make estimates on some of these issues, but clearly, if the government came to consider seriously particular proposals, they would make as much effort as they could to assess what the cost of them would be and then weigh that up against what they see as the perceived benefits.

**CHAIR**—We do have serious savings problems in our country.

**Dr Horne**—Yes, we do.

**CHAIR**—Does Treasury see employee share ownership as one vehicle for significantly improving our savings position? You said you do not know whether that is at the expense of public savings, but surely you have given a bit of thought to this.

**Dr Horne**—From the data that is available it is not clear what impact it has really had. Certainly, from the data that is available for the schemes, you would not say that they are likely to increase savings dramatically; they may well increase savings somewhat. National savings have more to do with the way people live and the way people think about life and a whole range of things and this is just one of those issues.

**Mr SAWFORD**—Dr Horne, you put forward your submission in a tripartite form of productivity, savings and government policies, so I am going to ask you three questions in the same format. Under the productivity issue, how would any of you regard employee share ownership in terms of the large companies in which it is mainly part of a restructure? You mentioned that that would be the prime issue, and I would have thought that was a first order issue in terms of companies restructuring for productivity; the second order issues probably are those of technology, work practices and so on. Would you place employee

share ownership in first, second or third order in terms of importance to productivity? That is one question.

The second question is in terms of savings. If all the aggregated information is not clear, is that a signal that we really do not know what we are talking about in a lot of these issues? Sometimes you can come up with a whole range of comments but if you cannot state it simply maybe it is because it did not happen.

On the third issue, the role of government, the previous comment I made was that employee share ownership may be important, but nevertheless a third order priority. Because you cannot clearly state the savings one way or the other, the role of government may not be to remove regulatory imposts, as I think James may have said. I think there are some genuine comments that have come out of the submissions as to anomalies—all over the place. Some of them seem to be quite bizarre in some ways. In actual fact, the role of government may be to simplify and make very clear how employee share ownership schemes operate. Maybe in that sort of context, over a period of time you might be able to go back and measure the productivity and the savings a little more easily, which we do not seem to be able to do at present.

**Dr Horne**—On your first issue, the rank ordering of employee share ownership schemes and their effect on productivity, I guess I would again come back to the fact that I would see them as positive but I do not really have any hard evidence as to where to put them in the overall scheme of things. I would much prefer to see them simply as one of a basket of things that are available to individuals and firms to go about improving productivity within the context of the firm. Your second question related to whether there was no evidence on some of these things—

**Mr SAWFORD**—Maybe that is an indication that we are diving in the dark on all of this.

**Dr Horne**—The fact that of their own volition a lot of companies have put in place these schemes suggests that quite a number of companies see that they are a valuable adjunct to the way they do business. It seems to me that that is, in essence, what a movement to a deregulated workplace is all about: giving choice to companies, giving choice to individuals about how they go about their business, how they get remunerated, what role they play. If people perceive that is a particular benefit in a particular set of arrangements, then over time you will see some movement in the general population of firms and individuals towards those ways of doing business.

**Mr SAWFORD**—Just on that matter, a lot of the large public companies seem to have satisfactory employee share ownership schemes, but when you look at them, these companies over the last 10 or 15 years have gone through massive downsizing, they have gone through massive morale problems, they have gone through massive restructures—and in fact sometimes restructure upon restructure upon restructure—so they have obviously created morale problems amongst the people who are left. Again, maybe they are not fair at all because participation in ownership is only a small level. If you tried to weigh up decision making or ownership, I think some employees might want more decision making in the

ownership, rather than just ownership all the time. So there is the countervailing measure for some of those companies.

The example that the chair used in terms of the small IT companies that may be coming up is a different example altogether, but in some ways, for those finance companies, Qantas, the Commonwealth Bank, all those sort of places, it has been a countervailing measure in many ways, or some people have argued that way. Anyway, I did not want to distract you from discussing the role of government.

**Dr Horne**—I think you are suggesting that perhaps the role of government is to simplify, rather than to necessarily remove regulatory imposts. I guess they can be seen as pretty much the same thing in a lot of instances; in some instances they may not be completely overlapping, but clearly there is a lot of overlap between them. Moving a lot of the regulatory imposts out of the way, such as in the CLERP arrangements, should facilitate a whole range of participants in these schemes if people, small businesses around the country, see them as beneficial. Whether it will happen will depend on whether business sees them as beneficial. At the end of the day, one of the thrusts of the comments is that it is not really up to government to determine whether these things are going to expand or not—although the government can influence that—it is more the fact that people have said there are some regulatory imposts here and we have some fairly path-breaking legislation in the CLERP bill which will in a sense test how important it will be.

**Mr SAWFORD**—To sum up, it seems to me that in your submission you have identified the three issues that really need to be addressed in this inquiry. Those are the productivity issue, the savings issue and government policy, and you have talked about that. It just seems from our point of view that to develop the coherence between that purpose of concern for the productivity in terms of the process, in terms of savings, in terms of the outcomes, in terms of how the regulatory framework operates, we keep coming back to this: ‘There is not enough aggregated data, there is not enough aggregated evidence,’ and it makes it extremely difficult to come up with a coherent response, or even in terms of the people who are involved in employee share ownership putting forward a coherent argument.

What I am saying again in terms of the government response is that sometimes the expansion of the rules does not make it simpler, it does not make it easier, it makes it in fact more difficult, and maybe what government and Treasury ought to be looking at is finding a much simpler way. If the purpose was more clear, if the process in terms of the savings was more clear, then that may lead to a much simpler set of government regulations in terms of dealing with this. I believe this would have a positive effect because we all seem to be dancing around on the edge rather than attacking it right through the middle. Would you like to make a quick response to that?

**Dr Horne**—In principle, I do not have any problem with the comment.

**Dr EMERSON**—I consider the prospective role of government in this to be one of simplifying rather than subsidising and it goes to the heart of this question of assertions that employee share ownership arrangements, as funded by taxpayer concessions, will somehow lift national savings. What you know for sure is that you are investing public savings in a scheme for highly questionable net impacts on the level of private saving, which goes to the

question of the studies. Apart from some sort of regression analysis, I cannot even conceptualise how you would go about trying to quantify the impact of employee share ownership schemes on productivity, for example, but I will give what could be a perverse example where it may in fact impair productivity.

I am told that in the case of Mt Isa Mines the unions and the company negotiated an employee share ownership scheme. This seemed like a good idea at the time, except the price of the shares went through the floor—for reasons totally unrelated to the performance and effort of the work force—and I do not think the workers saw the funny side of this. The problem in that sort of sector, and there are a lot of them, is that when the firm is a price taker on domestic—or more likely international—markets, you are trying to boost productivity and despite all your best efforts employees actually lose money in the process because they are engaged in share ownership schemes and the share price is much more heavily influenced by international events.

I guess the last point that I would like to make, which is really in the form of a question, is that I understand the sensitivity of talking about the taxation treatment of these things, but as a principle, if something is to be subsidised, does Treasury have a view as to whether that is best done through direct subsidies or through tax expenditures?

**Dr Horne**—I think it really depends on whatever the proposal is. You would not have a blanket rule—

**Dr EMERSON**—No, but a disposition. I would think that economists are trained to—

**Dr Horne**—The disposition on a lot of these issues, at a very in-principle level, I guess, is the transparency, and transparency leads you to the expenditure side.

**Dr EMERSON**—I am not seeking another comment so I will take that logic one step further and imagine that there is a proposal for subsidisation of employee share ownership schemes and in the budget papers in a particular year there was a certain amount of money allocated to do that in the form of direct subsidies to the companies or the employees; that would seem to me to be a pretty unlikely thing. I guess what I am getting at is that, politically, it is often easier to slip it into the tax expenditure side and put 'NA' beside it because you have to, because you do not know the cost of it in your tax expenditure statement, than it would ever be feasible to provide cash subsidies for this sort of scheme. As I say, I am not seeking a comment, although you are welcome to make one.

**Dr Horne**—No.

**Dr EMERSON**—I did not think so.

**CHAIR**—Coming back to the savings issue, have you been following what is happening with UK2000 and what the Blair government is doing there?

**Dr Horne**—We have been reading about what they have been doing with interest.

**CHAIR**—It is a question of whether Australia should, in a sense, follow that kind of model, and one wonders in terms of our current account and the net income deficit component of that. Let us say we are 10 years advanced from now and employee share ownership is very much a part of our work culture and the economic structure of companies and was extended to unlisted companies, small ones and so on; would that have the potential to reduce our country's reliance on foreign investment in Australian companies and play a role in reducing our net income deficit?

**Dr Horne**—It is not at all clear that it would. At the end of the day, if productivity increases lead to higher income, it really depends on how that income is spent—whether it is spent on consumption.

**CHAIR**—It just seems that at the moment we are increasingly relying on foreign money being invested in our companies and as our companies improve those dividends are going offshore. I know what I am saying to you is very simple, but if, over a long period of time, we are able to replace a proportion of that foreign investment with Australian investment by employees in their own companies, is that likely to have any long-term impact on our current account, apart from anything else?

**Mr SAWFORD**—Can I ask another question along the same lines, although on a different line?

**CHAIR**—Can I just—

**Mr SAWFORD**—It is the same question basically and he may want to answer both. Is it far better to have an increased co-payment on superannuation?

**Dr Horne**—I think a number of times we have gone to the point where we are not sure what impact it is going to have on national savings and it is not clear how, if individuals, for example, increase their ownership, buy shares in the companies where they are working, that affects other saving. Therefore, whether it affects in aggregate our reliance on overseas capital is not at all clear. I think in these sorts of cases it is much better to focus on the aggregate issues, the overriding issues, which the government has been focusing on in terms of getting its macroeconomic policy position very sound, very solid, and seeking to provide confidence in Australia as an economy. I think that the last few years and the Asia crisis are a testament to the fact that there is a feeling out there that the policy settings as they are are pretty much doing the job.

**CHAIR**—One of the people who made a submission promoted leveraged ownership plans, for example. Do you have an opinion of those?

**Dr Horne**—No, I do not.

**CHAIR**—One way or the other?

**Dr Horne**—No.

**Mr Lonsdale**—I guess the same sort of principles apply that Dr Horne was outlining—that in looking at the savings question you would need to examine whether other savings being displaced would actually affect the current account position, and that is not at all clear.

**CHAIR**—Another one of the issues we have come up against is that Western Australia has put a payroll tax on deemed employer contributions to employee share ownership plans and obviously that discourages the introduction of these sorts of plans into the workplace. What sort of mechanisms do we have to try to ensure some sort of Commonwealth-state harmony? These are the kinds of things we should be having a debate about, not a republic, but that is another issue. Is there something that perhaps you would like us to consider in dealing with that issue, assuming you support the concept of ESOPs?

**Dr Horne**—No, I do not think I would have any comment on that.

**CHAIR**—Is Treasury involved in negotiations with the state governments on these sorts of issues?

**Dr Horne**—I am not involved in the forums which would consider these issues. There clearly are standing fora that consider Commonwealth-state financial relations. There have been, as you know, very complex and detailed negotiations in putting to bed the ANTS package. Yes, clearly there are important issues and they are given the weight they deserve.

**Mr SAWFORD**—Just to follow that on, could you perhaps take what the chair has advanced on notice and give us Treasury's view on what the West Australians have done?

**Dr Horne**—Yes.

**CHAIR**—Ernst and Young made a presentation to us and they had 10 major areas that they were concerned about. I presume from what you have said that you have gone through their submission, and I would also assume from what you have said that you probably will not comment on any of them. There were 10 areas, including prospectus, which we have covered; no forfeiture requirements in relation to exemption plans. I presume those sorts of issues are too specific for you: the \$1,000 exemption—

**Dr Horne**—Very much so.

**CHAIR**—I had to try. I was reading the journal of the Australian Employee Ownership Association—it is interesting the things you end up reading in this job. The editorial in this month's edition says—and I quote:

We have reached, then, a watershed in the development of ESOPs in Australia. Either the Federal Government must ensure that 'non-13A' plans can continue to be used for genuine employee ownership purposes, or it must liberate Division 13A from the strictures which have made alternative plans necessary.

When you are reading, as I am sure you do, this sort of thing over there, does your blood pressure go up or do you have people who think that there is some merit in what they are saying? In terms of alternative plans for 13A, do you have a view as to whether the government ought to be addressing the policy issues there in relation to 13A?

**Dr Horne**—No, I think we would prefer to pass on that question.

**Mr WILKIE**—Why is that?

**Dr Horne**—It goes to policy issues before the government.

**CHAIR**—That is another issue actually because we have had a number of submissions from people who have said, 'Look, we go to the ATO and it doesn't have the capacity to deal with policy issues. The ATO makes a ruling and says, "Look, you can't do this", or "You can do that", or whatever.' So then they go off to the Treasurer's office—they even go to Treasury—and they say to us that the Treasurer's office either does not wish to address these policy issues or Treasury does not have the capacity to deal with policy issues. I know that, like us, you are accustomed to being criticised, but there is a thematic criticism there.

**Dr Horne**—I guess there is an issue that when a range of groups go to government they will be pushing particular cases. I do not think you would expect that every time somebody goes to government that government is going to pick up the particular issues that have been brought before it. I think that the various processes we have seen, for example, in the tax debate over the last 12 months, have been very consultative. All sorts of groups have been involved. I can understand that if people prepare something and take it to somebody and are told, 'Thanks very much. At the moment it doesn't accord with the directions we're going in,' there is a certain frustration, but that is part and parcel of—

**CHAIR**—If this committee were, for example, to recommend that there be some kind of authority that is established or statutory body or standing committee or something which provides that interface between policy makers, Treasury, ATO, the share ownership association, unions and employers, would you welcome that or would you be more inclined to take the view that you do not want anything to do with it?

**Dr Horne**—I do not have a position on whether that is—

**CHAIR**—I presume if the government says, 'It is something we would like to be involved with,' you would?

**Dr Horne**—Certainly.

**CHAIR**—I think we have probably just about covered everything that we wanted to cover with you. Thanks very much for coming along. As you follow the submissions that come in, if there are things said within the framework within which you are allowed or you feel that you are able to comment, could you let us know, and it might even just be criticism which is not always informed. You might respond to any of that.

**Dr Horne**—Okay. Thanks very much.

Resolved (on motion by **Mr Sawford**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at the public hearing this day.

**Committee adjourned at 9.57 a.m.**

