

'The buck stops where? Which level of government should do what and why?'

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[Note: the following contains some passages that were absent from the actual speech, being left out due to time limitations]

Good afternoon everyone.

Firstly I'd like to thank Miriam Lyons for inviting me to speak today and for doing such a fabulous job in organising Interface. And thanks also to everyone involved in planning for this event, and to everyone who has made it along to share in what really *can* make a big difference if we put our hearts and minds into it.

Well the questions I've been asked to speak on today – The buck stops where? Which level of government should do what and why? – exactly coincide with the PhD that I'm presently three years into, and, I hope, within two years or so of completing. The provisional title of my PhD is 'The Design of a "Best Possible" System of Government for Australia, with Emphasis on Subnational Government Structures and Boundaries, and the Powers and Responsibilities Assigned to each Sphere of Government.'

My research and reflections to date indicate that, to properly address these questions, it is necessary and perhaps sufficient that we attend to the following two tasks:

Firstly, we should establish a set of criteria for use in deciding which powers and responsibilities should be assigned to which levels of government.

Secondly, we should take stock of our present structures and systems of government, service delivery and outcome facilitation, mindful of the ongoing challenges we face as a country, and mindful also of structures and systems employed in other countries.

I will now deal with each of these tasks in turn and then go on to provide a specific response to the question at hand that will recommend that we move to a system involving national and local governments as our two principal levels of democratic government.

Design Criteria

At the very least we'd want our system to be *genuinely* democratic; understandable; accountable; just; equitable; affordable; efficient; stable yet flexible; socially, environmentally and economically sustainable; outcome effective in functional areas such as the environment, health, education and justice; helpful

to individuals and businesses small and large; and centralised and decentralised in an appropriate balance. We want a system which is close to and responsive to the diverse needs of individuals and communities across the country, and which is responsive also to the needs of the country as a whole and to global challenges and circumstances.

My hope is that we can keep these criteria in mind in our ongoing reflections. One might assume that our present system satisfies all these criteria, but as we'll soon see, our present system in fact falls down *very* badly according to most of these criteria.

Taking stock of our present system

In the year ending June 2001, Australian governments across all three levels took in a combined total of \$257 billion in revenue from all sources, \$214 billion of which was taxation revenue. And they *spent* a total of \$249 billion, and when public corporations are also taken into account, some \$275 billion was spent in the public sector as a whole. I should mention that all government finance figures I am using here are as taken from the Australian Bureau of Statistics Government Finance Catalogue 5512.0, for the year ending June 2001.

Federal Government

Australia has a federal system of government in which two levels, federal and state, have sovereign powers and responsibilities that cannot be removed by the other level of government. Our federal Constitution, mainly in Section 51, assigns particular powers to our Commonwealth (or federal) government in areas such as Defence, Foreign Affairs, Taxation, Immigration, Trade and Commerce, Post and Telecommunications, and Social Security. The Commonwealth government accounts for some 55% of all government spending in Australia but collects approximately 82% of all taxation revenue. The surplus revenue here is used mainly in grants to the states and territories.

State Governments

All powers and responsibilities not mentioned in Section 51 are assigned, by default, to state governments and in practice territory governments as well, although territories do not have quite the same sovereign status as the states within our system. About 39% of all government spending in Australia is carried out by state and territory governments, but the states and territories themselves raise just 15% of the taxation revenue collected by all governments. So the states and territories are heavily dependent upon Commonwealth government grants, which, in practice, give the Commonwealth considerable coercive bargaining power and somewhat centralised control over state and territory governments.

State governments have principal policy-making and implementation powers in areas including law and order, emergency services, health and human services, education, transport, natural resources and the environment, industry, employment, and sport and tourism. However, in practice, the need for national coordination,

overlapping constitutional responsibilities (especially in areas relating to industry, trade and commerce), and the Commonwealth government's role as main financier of state and territory governments ... these realities have meant that many government functions are attended to jointly by the Commonwealth and state and territory governments – for example in areas such as education, health and transport, which are state responsibilities from a constitutional viewpoint, but largely financed by Commonwealth grants.

Significantly, of the \$33 billion in taxation collected by the states and territories in the year ending June 2001, over \$9.5 billion was payroll tax, nearly \$5.3 billion was stamp duty, and over \$3.5 billion was gambling tax. So our state and territory governments rely heavily upon taxes which discourage employment, trade and commerce, and at least passively encourage gambling.

Local Government

The year ending June 2001 saw local governments (excluding the ACT) account for just 6% of all government spending in Australia and just 3% of total tax revenues collected.

Local governments are not mentioned in our federal Constitution, and only assume the powers and responsibilities which governments of the states and the Northern Territory delegate to them – the ACT is again an exception here, hosting both state and local government type functions. Local government powers and responsibilities vary across the six states and the Northern Territory but generally include: the maintenance of roads, footpaths, parks and gardens; town planning and building regulations; garbage collection; council rates collection; infant welfare centres; meals on wheels; and public libraries.

In assessing the role of Australian local governments it is *especially* noteworthy that, excluding Australia itself, only eight countries in the world are larger in land area than Western Australia, and only 15 larger than Queensland. New South Wales has nearly the population of Switzerland spread across a land area larger than Switzerland, Germany, Austria and Italy combined. Furthermore, whereas Australia's entire population at the time of federation in 1901 was just 3.7 million, nearly 7 million Australians now live outside the capital cities alone, and nearly 4 million Australians live within 100 km of a state or territory boundary.

The point here is that our *local governments* – particularly outside the capitals – are *especially* heavily relied upon to address needs and provide services which our state and Northern Territory governments are simply too large and too distant to provide. ***Yet Australian local governments are starved of constitutional and financial powers and resources to an extent unmatched in the democratic world,*** accounting for, as mentioned earlier, just 6% of total government spending. The corresponding figures in other federations include 25% in the United States, 21% in Switzerland and 18% in Canada. Among countries with unitary systems of government, local governments account for 26% of all government spending in the United Kingdom and 38% in Sweden.

A 1997 OECD Report of a comparative study of 26 OECD countries, titled 'Managing Across Levels of Government' (refer <http://www1.oecd.org/puma/malg/malg97/toc.htm>), describes Australia's situation as follows:

The states are among the most powerful intermediate governments in the world because of the breadth of their functions and their substantial role in service delivery (in large part a function of the centralisation at the sub-national level, which occurs at the expense of local government).

So, whereas advocates of federal systems of government say that federation is supposed to bring government close to the people, federation Australian style keeps government and democracy further from its people than in any other comparable first world country.

Duplicated Centralism

The Australian federal system has in practice yielded what can only be described as "duplicated centralism" – a system which suffers firstly because of the extent to which the eight State and Territory governments duplicate the work of one another *and* of the Commonwealth, and secondly because federal, state and the Northern Territory governments alike exercise such centralised dominance over the tier of government beneath them (the ACT again being the single exception here). Australian state governments in particular are almost certainly the most centralised sovereign governments in the democratic world in terms of their constitutional and fiscal dominance over local government, and the state capital-city-centricity that arises due to the population and elected representative share in the capitals being so high, and the hinterlands so expansive in land area and hence typically so remote from their capital.

Furthermore, there is not only duplication among state and federal governments, but also among a vast tangled web of regional organisations that have sprung up to valiantly try to compensate for the inadequacy of our present system of government in addressing the needs of local and regional communities. Right across the country we have vast numbers of local and regional bodies, chambers of commerce, various forms of regional development organisations, area consultative committees – government and non-government bodies alike – all trying to look after local and regional communities where state and federal governments have been too far away, ineffectual or neglectful.

So to what extent does duplicated centralism impede our performance as a country?

Challenges and Costs

The salinity and Murray-Darling crises; corporate and market failures in the health care, aviation, telecommunications and insurance industries ... these realities all draw attention to the urgent relevance of the question I've been asked to address today.

Whereas at Federation we were about the wealthiest country in the world, the rigours of global competition have seen our wealth slip significantly relative to other first world democracies. And whereas Western Europe and North America each have several hundred million relatively wealthy people to purchase goods and services produced by countries there, and help maintain economic stability as a foundation for social integrity and prosperity, Australia is surrounded by relatively poor Asia and Africa and uninhabited Antarctica, and has less than 20 million people. Our decline over the past century is no doubt partly due to the unique disadvantages we face due to our far flung settlement patterns and isolated location. But we have also suffered under the increasingly crippling weight of duplicated centralism and the enormous, relentlessly compounding costs hence imposed.

Whilst being a federation *per se* does not necessarily incur excessive costs of duplication – such costs can accrue in multi-tiered unitary systems as well – relative to other first world federations and virtually all unitary systems of government, Australia's mix of powers between the Commonwealth and the states and territories is an extremely expensive one. And among the USA, Switzerland, Canada, Australia, Germany and Belgium (six notable federations), Australia is the poorest in per capita GDP terms, the most distant from export markets, the most sparsely populated, and hence, probably the most critically disadvantaged by the massive costs of duplication among its two highest levels of government. My own estimations (see <http://arachnid.apana.org.au/asc/cost.htm>) are that our present system of government hosts wasteful inefficiencies, in terms of bureaucratic and regulatory duplication and coordination burdens, which amount to some \$30 billion per annum.

We can do little to change our geographical circumstances and associated economic disadvantages, but, fortunately, our Constitution and democracy *do* allow us to change our system of government. And merely by taking gainful advantage of the lessons learnt, knowledge acquired and changes realised over the last century, we are ever better equipped to design a new system of government which can negotiate the referendum hurdles and improve upon our present system in all significant respects.

So ...

Which level of government should do what and why?

A "best possible" system of government for Australia should involve *two* principal levels of democratic government. We need strong, effective close-to-the-people local or regional government and strong, effective national government. Everything which the states and territories do at present could be done better, in respect of all relevant criteria, at either the national scale or a scale much closer to the people than the states and Northern Territory are.

We can achieve the system called for here by simply *amalgamating*, or coalescing, state, territory and federal governments into a reformed, rationalised national government, leaving local governments in more or less their present form. Some believe we should amalgamate local governments into larger regional units, and I agree that there is some merit in this for some parts of large cities and in towns

where "donut" rural shire councils encircle town councils. In general, however, I believe Australia's 700 or so local governments are about the right size as they are. Many rural councils already cover very large land areas and we couldn't possibly satisfy the essential closeness-to-the-people criterion if we forced amalgamations on to local governments – especially in sparsely populated rural communities.

Local governments should be assigned powers and responsibilities generally held by local councils in their present form plus significant, but not overloading, additional *general* community and regional development roles with industry, employment, labour market support and welfare elements. I emphasise the word *general* here to draw attention to the significant autonomy that such generality should necessarily provide. The idea is that local government *could* put on a big town or suburban barbeque, or under-write the insurance or overall costs of the annual town show, or employ people experiencing hard times etc. etc.

Powers and responsibilities assigned to the national and local governments should be formalised in a new Constitution which should also provide local governments with equitable guaranteed revenue share entitlements like those determined by the Commonwealth Grants Commission for the states and territories in the present system. Neither the states, territories nor local governments have ever had such revenue guarantees, which are arguably the very substance of equitable decentralisation. Significantly, even with several hundred local government units, the system of government as described here could definitely qualify as a form of federation.

I should add here that the Grants Commission concept is one plainly world class feature of our present system of government in terms of its equity-enhancement effect. The one problem with our Grants Commission approach, however, is that its methodology applies with a very broad brush to our vast states, so the grant allocation process overlooks significant localised wealth variations. Applying the Grants Commission methodology to 700 or so local governments could facilitate focused, equitable resourcing of local communities to a standard that would have to be close to world best practice in terms of socio-economic equity facilitation.

Some people talk of having 30 to 100 or so regional governments, and I for one would be delighted to see a soundly developed working model along these lines, however I believe regional governance can perhaps best be achieved through resource pooling and voluntary collaborations among neighbouring local communities through their local governments. We already have about 50 voluntary regional organisations of councils (VROCs or ROCs) presently in place across most of Australia (refer <http://www.alga.com.au/regionlink/vroclist.htm>), which provide an excellent model for such arrangements. Like with local government generally, these ROCs survive on shoestring budgets in the present system and could be expected to thrive as never before once they emerge from beyond the shadows of state governments. My own estimations indicate that a system as envisaged here thus far could easily facilitate at least a doubling of resourcing levels at the local government level. Just imagine how this could help local governments look after their communities – especially in areas beyond the capitals, but in urban localities as well.

National government functions, such as health care, education, policing and so on, could be facilitated through regional bodies like those already in place at the state level in our present system, with service delivery regions, especially in areas of life and death gravity such as healthcare and policing, designed according to functional imperatives rather than arbitrary boundaries. With healthcare, for example, service delivery regions would be designed on the basis of settlement patterns, hospital locations, ambulance travel times etc. There would be regional court, policing and educational districts, water and environmental districts based on catchments, and so on. To manage the Murray Darling Basin, for example, we'd probably need a body like a Murray Darling Basin Commission. Now how about that, we already have such a beast, but whereas it is now a six-headed monster, being slave to six masters in the form of the federal government and the governments of SA, VIC, NSW, ACT and QLD, in the "best possible" system recommended here, the Murray Darling Basin Commission could be subject to just a single national government master, though of course it is assumed that local government and communities could be involved as they see fit, and could exceed national standards absolutely as much as they like!

Regional headquarters for different service areas could be placed in different towns or cities – especially in rural areas – in order to share the workforce across different communities, avoid "sponge city" problems and generally spread the benefits of decentralisation.

So in conclusion, I believe the buck should stop at national and local governments in a system more or less as I have described just now.