

*Selected text tabled
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Federalism Speech

NSW Business Chamber 'Fixing the Federation' symposium

Tuesday 8 July 2008

I want to outline a few numerical propositions as it relates to our challenge of a federation model that has outgrown its use by date.

Australia - A Country Out of Alignment

A quick synopsis of total Government revenue (all levels) and expenditure shows an imbalance that I believe is at the core of the problem. In approx percentage terms the Commonwealth receives 80% of revenue, and accounts for 56% of expenditure, yet the State Government receives only 16% of the revenue, and accounts for 40% of the expenditure.

The simple problem that this creates is an absence of both strategic and tactical accountability. For the Federal Government it's "too easy", there is no need for expense control and grand election/spending programmes can be made with limited requirement for pain or necessarily long term economic benefits ensured. For the State Government it's "too hard" – it will never earn enough so it always has its cap out; it gets away with an "it's not my fault" syndrome. For Local Government, they must simply be satisfied with the "crumbs off the table".

This theme is picked up by Robert Carling in his research piece for the Centre for Independent Studies "State Tax Reform: Progress and Prospects". He quotes V. W. Fitzgerald who says amongst other principles for federal tax assignment that 'each level of government should be responsible for raising taxes covering a substantial proportion of what it spends, on the grounds of basic democratic accountability'.

He goes on further to note that whilst every federation in the world fails to achieve complete fiscal autonomy for its sub-national governments, it does not negate the principle that each level of government should self-finance a substantial proportion of its expenditure, and should have the fiscal instruments at its disposal to make choices about the size and structure of its revenue and expenditure.

This imbalance is only going to get worse and the well articulated fiscal gap would expedite this in coming years. In simple terms just looking at health and the associated problems of an ageing population the total budget of \$13.2 billion in 2008-09 is already two-thirds of total State tax receipts of \$18 billion. It is the State's biggest requirement and that will only increase. Health is growing at 7-8% whereas revenue is only increasing by 3%. This means that in the medium term health will consume the State Budget. In other words the State Budget will have almost no relation to the services it is required to produce.

Reform is badly needed. Aligning revenue and expenditure will enhance accountability and ultimately service delivery. In a form of rich irony – a \$20 billion surplus is bad for the country. It shows a system that is not working when huge levels of state infrastructure remain untouched.

So what do we do?

A Re-definition of Responsibilities Required

It must start with a re-consideration of overall responsibilities.

The vexed question of increasing or decreasing the responsibilities of various levels of government must be addressed.