

Federation still a cornerstone but reform is needed

Comment

David Thodey



This summer of catastrophic bushfires will inevitably change the way we, as a nation, respond to natural disasters, manage our landscape and cope with our capricious and changing climate.

When the fires are finally out and the rebuilding of lives, communities and wilderness is well under way, one thing that must be on the agenda is whether our 120-year-old Federation was a help or a hindrance in dealing with a crisis on this scale. The debate over the roles and responsibilities of the states and the Commonwealth, particularly in relation to emergency responses, could suggest the latter.

The truth is that the Federation will never be perfect. But the past couple of months have perfectly underscored the need to ensure it evolves to meet the

ever-changing needs and expectations of our citizens. In short, our Federation must be modernised and refreshed.

The issues are well known. Our country is changing in ways that will make the delivery of state services more expensive and our sources of funding – effectively taxation – less reliable. This includes our ageing population with its commensurate demands on the health and welfare systems, technological advancements that are shifting the way we move, spend and work, and the impacts of global digital competition.

Unfortunately, based on every analysis we have looked at, the current mix of tax and Commonwealth grants that pay for our state services and infrastructure will not be enough in future. It will simply not provide the productivity growth or revenue necessary to sustain our standard of living.

It means doing nothing is not acceptable. If we do nothing, we will deliver a legacy of debt, compromised

service delivery and quality, and a weaker economy for future generations.

One thing that became clear in the Independent Review of the Australian Public Service, which I chaired, was that the states are not alone in this challenge. Many of Australia's most pressing public policy challenges are manifesting at the boundaries of Commonwealth and state responsibility. Commonwealth Treasurer Josh Frydenberg says we "should be under no illusion about the inefficiencies that exist in our Federation and the handbrake it represents on our productivity".

But Federation, for all its imperfections, does give us a head start. Just as changes in our industry, population and technology are national and pervasive – cutting across jurisdictions and services – so are the solutions. Our Federation also combines the ability to address global pressures with the capability to develop localised and innovative

policy. Good ideas in one state or locality can benefit the nation at large.

Last year we opened the national conversation with a discussion paper that set out the challenges. It was titled *Working Together for a Better Future* because we have to find a new era of co-operation among governments to address these challenges.

Characterising this task as a simple exercise in raising taxes is lazy thinking. That is not the solution.

It is about improving the tax mix to create a fit-for-purpose system that provides the states with enough revenue, has a smaller impact on the economy and gives citizens the choice to act in a way that suits their family, social and work circumstances.

Though the NSW Treasurer has assembled a high-calibre panel, we know we don't have all the answers. That is why we sought the views of the public, peak bodies, service providers, think tanks and every other state and territory government.

The findings of the consultation period confirm support for the Federation but concern about its ability to support the living standards of citizens into the future in its current form. The findings highlight duplication between the states and the Commonwealth, the burden of bureaucracy and the need to make taxes simpler and fairer to unlock productivity growth – most strikingly, state stamp duties on property transactions but also payroll and insurance-based taxes.

Fortunately, those who made submissions also offered a range of creative solutions to some of these issues.

More than half of all submissions to the review raised the issue of stamp or transfer duties, with the majority calling for the tax to be replaced by something fairer, efficient, and predictable, such as a broader land tax, or at the very least reduced.

Although reform in this area was

acknowledged as extremely difficult and likely to be both expensive and prolonged, it was clear there would be few tears shed over the demise of an unfair tax that affects citizens' freedom to move throughout the seasons of life, often impacting our first homebuyers and downsizing seniors the worst.

Another frequent bugbear was the growing inequality in relation to who ultimately pays for the wear and tear on our

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roads, traffic congestion and pollution. With the effectiveness of the fuel excise falling fast as cars become more efficient and (generally wealthier) people turn to electric vehicles, many argued the time was right to debate a fairer means of charging for road use while not discouraging the take-up of fuel-efficient vehicles.

Submissions acknowledged the risk posed to the states by eroding GST revenues. And there was general acceptance of the principle of taxing income and capital less

and consumption more. But there were mixed views on the path forward, with calls for changes to the rate or base of the GST countered by warnings that any reforms could unfairly affect low-income households – or that any compensation for those households would consume any additional revenue generated.

We heard consistent agreement that the myriad funding agreements between the Commonwealth and the states should be less prescriptive and more focused on outcomes. Some suggested the Commonwealth could do more to encourage state-based reforms.

The conversation continues this month with a one-day Federation discussion, supported by *The Australian Financial Review*, before our final report will be released in the middle of the year.

Already, however, our consultations are helping draw a road map towards a Federation that allows essential services to be funded into the future and every precious taxpayer dollar – no matter how or where it is raised – to be spent effectively and efficiently.

David Thodey is chairman of the NSW Review of Federal Financial Relations. He is a former CEO of Telstra and chaired the Independent Review into the Australian Public Service.
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