

Submission to NSW Review into Federal Financial Relations

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We welcome the New South Wales Government's review into fiscal relationships within the Australian federation. The Discussion Paper rightly notes the dire need for review (and reform) of revenue sources for the Australian States. In this submission, we accept the need for fiscal federal reform, but urge the Panel to consider fiscal reform in its broader context.

The need for federal reform in Australia is well-established and needs little elaboration here. Achieving reform has proved an elusive task, however. Most relevantly, reform efforts focusing on purely fiscal issues (such as COAG's Council on Federal Financial Relations) have only achieved limited success, and widescale fiscal reform is frequently unsuccessful, fails or is abandoned.

There are several reasons why federal fiscal reform is challenging, but the most important reason is that meaningful and enduring fiscal reform relies on broader structural changes to our federation. Without broader change, the institutional deficiencies that have produced the grim outlook identified in the Discussion Paper will undermine any attempt at fiscal reform. Three key challenges are especially important here.

First, the high turnover of elected officials - especially leaders - in recent years is a core barrier to achieving lasting federal reform. At a change of government, or leader, priorities necessarily shift, and many of the relationships, understandings and agreements with other governments within the federation must be rebuilt or reconfigured. Second, and relatedly, the hyperpartisanship dominating modern politics means that the major parties are incentivised to differentiate themselves from their counterparts, and to pursue their own policy platform over seeking a consensus middle road. Federal reform relies on bipartisanship and finding common ground, both between governments and between political parties, a task that has proved increasingly difficult in modern politics. Third, the extreme vertical fiscal imbalance noted in the Discussion Paper not only causes issues for States' budgets, but it also means that there are few incentives for the Commonwealth to engage in federal reform that will give power back to the States. In examining options for reform, either specifically fiscal or more broadly, encouraging good-faith Commonwealth engagement is a critical challenge.

Against the backdrop of these concerns, we argue for a consideration of a National Federation Commission or similar federated body to guide federal reform. Calls for an independent body that can withstand political churn and partisanship (unlike COAG and CAF, which are driven by elected officials) are periodically made in the context of federal reform (see, e.g., the 2011 Joint Select Committee on Reform of the Federation for a good discussion). Proposals differ on what exactly the body should look like, but common models include forming a statutory authority (similar to but separate from the Productivity Commission), or a Joint Standing Committee of Federal Parliament. In our opinion, a statutory authority offers the best model as it would resist

political churn and could be constituted as a genuinely federated institution (i.e. where the Commonwealth, States and Territories are clear equals, rather than being led by the Commonwealth).

While a National Federation Commission, responsible for overseeing the federal balance and long-term reform would have many advantages, it would offer several important benefits and answers to the questions posed in the Discussion Paper. We turn our attention to those questions:

4. How can States reduce their dependence on the Commonwealth?

This Discussion Paper rightly notes the problems arising from the States' reliance on the Commonwealth government, especially because of funding. However, this discussion also needs to acknowledge the practical reality that the Commonwealth government has most of the bargaining power in the federation as it is currently structured. This means that States must convince the Commonwealth to allow them to reduce their dependence on the Commonwealth, a challenging task that can easily fall victim to the problems listed above.

A National Federation Commission has the potential to overcome that challenge by providing a forum for the States and the Commonwealth to negotiate on an equal playing field, rather than following COAG's agenda set by the Prime Minister. From a more equal platform, States would have a stronger voice to compel the Commonwealth to rebalance the federation.

5. How can Commonwealth-State relations encourage States to innovate and reform?; and

7. How can governments work better together and learn from each other, putting citizens at the centre of decision-making?

States are currently limited in their ability to innovate and reform because they lack the financial resources to do so. However, they are further hindered in their efforts by challenges of coordination between States or with the Commonwealth. The trend of centralism in Australia has also reduced States' opportunity to innovate, because Commonwealth takeovers both cut out opportunities for policy experimentation from State-to-State and threaten to undermine existing attempts at innovation.

A National Federation Commission would provide a mechanism for encouraging and fostering State innovation, and for policy learning and transfer amongst the States to spread the benefits of successful policy innovation. Currently, COAG and Ministerial Councils are designed as the platform for these discussions, but as listed above, these institutions are undermined by political churn, hyperpartisanship, and imbalances in power between the Commonwealth and the States. A National Federation Commission therefore has the potential to provide fresh opportunities for State innovation, reform and policy learning.

In sum, we applaud the NSW Government's initiative in examining federal reform. However, we note that while fiscal imbalance is a critical issue in need of urgent reform, narrowly focusing on financial elements of reform may be counter-productive and unlikely to succeed. Instead, we encourage the Panel to explore broader options for reform, including considering options around instituting a new body to oversee the federation. Necessarily, this broader approach will involve including the Commonwealth and other States in discussion, but even a narrow focus on fiscal reform would require input from other governments. We look forward to the opportunity to further contribute to this important discussion.