



Finance

Abolishing state governments would save \$30bn by slashing red tape

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We must be brave: piecemeal change will not deliver reform quickly enough

'There is nothing more dangerous than to introduce a new order to things, for he who introduces it has all those who profit from the old order as his enemies.'

Machiavelli, The Prince.

CAN Prime Minister John Howard and Queensland Premier Peter Beattie both be right? Yes! But they're both wrong too. Howard's intervention over Queensland's council amalgamations and grab for power from the states raises a bigger issue: do we really need three very expensive layers of government? The answer is no. The gains from untangling government are enormous. But to realise them, we must abolish state governments -- and beef up local governments.

We live in one of the most over-governed nations on earth. Keith Suter once estimated that we have one politician per 930 electors, compared with Britain's one per 22,000. Our three-tiered federation takes 700 governments (one national, two territory, six state and 691 local) and about 22,600 politicians to serve only 21 million citizens. Particularly at the federal and state levels, there is unnecessary and counterproductive overlap. We have state and federal ministers in multiple portfolios, including education and health. Unclear responsibilities create lack of accountability and encourage dysfunctional behaviours, including cost-shifting, blame-shifting and profligacy.

But would reforming this mess make much difference? Can it be done?

Writing in the Australian Journal of Public Administration in 2002, the University of Canberra's Mark Drummond concluded that abolishing states and moving to a two-tiered national-local system (with the federal government taking over all state functions) would save over \$20 billion in public expenditure annually. As we may not want the federal government to get that big, Drummond has also estimated that a two-tier system in which the abolished states' functions are divided between the federal government and 40-60 regional governments (with some local governments remaining where necessary, such as in areas with low population densities) would save at least \$15 billion. But that's only the half of it. In total, Drummond believes the annual benefit would be \$30 billion, when "massive additional savings" for the private sector through cuts to red-tape are included. Plus, we 21 million citizens would have easier lives.

The red-tape rationalisation opportunity is particularly attractive, given that the Business Council of Australia's recent reform scorecard showed that, despite the lip service paid by federal and state governments, red tape continues to grow. In reality, meaningful cuts won't happen unless we abolish one layer of government.

This necessitates comprehensive change -- not opportunistic, piecemeal interventions like taking over one Tasmanian hospital. It also requires council amalgamations -- the very thing Howard opposes in Queensland with no real justification. The amalgamations were recommended by two separate independent committees. Their very good reports pointed out that Queensland's local government boundaries were largely drawn more than a century ago and are long outdated. At that time, a host of factors like primitive transport means and low population densities necessitated small councils. These are now anachronisms. Queensland's Treasury has projected that the financial outlook for 43 per cent of councils is "weak" or worse. The independent committees argued that councils must be of "sufficient scale to generate cost-efficient and effective services".

The extent to which council activities exhibit economies of scale is a controversial subject among economists. The University of New England's Brian Dollery has been a perceptive critic of the "bigger is better" justification for amalgamations in other states. But while economies of scale may peter out after a critical mass is reached, Queensland has 88 tiny councils (with less 5000 residents); NSW has 26, Victoria only two. And Beatty's plan would get rid of 724 politicians in one fell swoop.

Expanding local governments as part of a package to get rid of state governments is enormously attractive. Beefed up local/regional governments could efficiently take on activities (such as policing and fire-fighting) while being more responsive to local customers than remote state governments can be. These activities are routinely performed by local governments overseas.

Howard's claim that ratepayers should be able to vote on amalgamations is silly. If ratepayers were fully covering their costs, this would be entirely reasonable. But the Queensland Government provides more funding to its local governments than any other state. A state government should not be required to massively subsidise inefficient councils simply because the beneficiaries of those subsidies want them to.

Our system's failings are obvious for all of us to see. A 2005 survey of NSW citizens led by Griffith University's A.J. Brown demonstrated that many citizens want serious reform. Only 24.9 per cent of respondents had confidence in state governments, 40.9 per cent had faith in the federal government and 34.2 per cent had confidence in local government. Almost half (47.4 per cent) nominated their preference for a two-tier federal/regional system; only 12.5 per cent favoured the status quo. Tellingly, 61.6 per cent of state public servants -- who know best the downsides of state governments -- preferred a two-tier system.

Even politicians recognise that states are anachronisms. State abolition was Labor policy for decades. Bob Hawke advocated it before his election to parliament and after he was deposed as prime minister -- but did nothing about it while in power. Howard said in May that "if we started the country again, that (no states) is what people would want. But I am not about to embark on a constitutional campaign to get rid of state governments, let me assure you of that". Pity! Why not?

True, it would require a referendum to approve constitutional change. Referenda are not easy to win. But the main reason why any federal government won't move to abolish states is the electoral risk involved. A move to do so would cop the same flak that Beattie is copping over council mergers. Beattie said recently: "I've never seen a group of politicians losing their jobs ever cop it on the chin. They scratch and bite of course they're going to organise campaigns." Imagine what state premiers would do if their jobs were threatened!

Howard recently called for us all to become "aspirational nationalists". Probably by design, no one has been able to fathom what he meant by that. He claimed that the debate over federal-state relations has focused too much on the roles of each level of government, correctly noting that role definition is "not an end in itself". But he was only half-right in saying we should "focus on outcomes, not systems". Outcomes do matter, but realising the huge potential cost savings and service improvements is impossible without comprehensive reform. Otherwise, we're just fiddling at the edges. The cumulative effect of these fiddles might wipe out state governments in the very long run. But, to paraphrase Keynes, "we'll all be dead by then".

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