

Democracy in Australia – Reform of Federation

According to the *Australian Constitutional Values Survey 2012*, the public is in general supportive of a federal system of government, but almost two-thirds of Australians do not believe its governments are working well together. Moreover, the quality of public services needs to be improved and there is concern that they are requiring too much public funding. The public is therefore of the view that the Federation is in need of reform.

The Commonwealth Government is currently reviewing Australia's federation and has made a commitment to produce a White Paper towards the end of 2015. The review spans issues of democracy to tax reform. A key aim of the White Paper will be to clarify the roles and responsibilities of the Commonwealth, the States and Territories.

The need for this exercise arises from the fact that Australia has changed quite significantly since its Constitution was enacted 114 years ago. As government is faced with an increasingly complex world, and the cost of governing steadily increases, questions relating to efficiency and equity with respect to taxing, spending and accountability have arisen, requiring the need to strengthen the way the federal system works.

At the founding of the federation, power was to be primarily divided between the Commonwealth and State and Territory governments. This concept has weakened over time. Experience has shown that, on the one hand, the Commonwealth is best placed to make payments to individuals, e.g. pension payments, but it is far less efficient when it comes to the carrying out of actual service delivery. Nevertheless, it has become increasingly involved in matters which have traditionally fallen within the scope of the State and Territories. States have had to cede control to the center, while remaining responsible for the delivery of services. Moreover, they find they are dependent on revenue collected by the Commonwealth (nearly 45 per cent), which must flow through intergovernmental agreements in order to provide the services that fall within their responsibility. Intergovernmental relations have ended up evolving in a way that has led to a high degree of unproductive overlap and duplication between levels of government.

It is because of this situation that the need to separate the proliferation of roles and responsibilities that has occurred between the Commonwealth, State and Territory governments has arisen, especially in the areas of mental health, education, aged care, welfare and so on. The review will focus on questions of not only where to locate services, but where best to raise the taxes necessary to pay for them.

The largest and most effective taxes, the GST and income tax, are federal taxes and they are applied nationally - for efficiency and social equality reasons. State and local governments are better placed to levy land taxes, royalties on resource production, user fees and charges for services and activities in each state. At issue here is how best to spend money, especially when trying to address the problem of "duplication" in government service provision.

In trying to determine how much taxing power the states should have, a number of issues will be examined, e.g. how to address taxing capacity inequalities between the states. Currently a horizontal fiscal formula is applied to the distribution of the GST to State and Territory governments. If this were to be changed than issues of inequity between wealthier and poorer states would need to be addressed. Tax reforms will need to be proposed in a way that meets the public expectation of fairness and efficiency.

The review's objectives will be to:

- reduce and end, as far as possible, the waste, duplication and second guessing between different levels of government;
- achieve a more efficient and effective federation, and in so doing, improve national productivity;
- make interacting with government simpler for citizens; and
- ensure the federal system:
 - is better understood and valued by Australians;
 - has clearer allocation of roles and responsibilities;

- enhances governments' autonomy, flexibility and political accountability; and
- supports Australia's economic growth and international competitiveness.

Useful sources

Brown, A. J., Australian Constitutional Values Survey 2012, Griffith University, November 2012.

http://www.griffith.edu.au/__data/assets/pdf_file/0011/471719/Griffith-University-Constitutional-Values-Survey-Nov-2012-Results1-EMBARGOED.pdf – accessed 6 April 2015

Commonwealth of Australia, *Reform of the Federation White Paper*, Issues Paper 1, Department of the Prime Minister and Cabinet, Canberra, September 2014.

Stewart, M., 'Renewing Australian federalism', *The Conversation*, 15 September 2014.

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THE AUSTRALIAN COLLABORATION

