

**School of Business and Government
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**Costing Constitutional Change:
Estimates of the Financial Benefits of
New States, Regional Governments,
Unification and Related Reforms**

by

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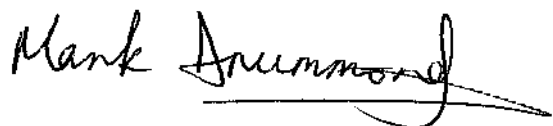
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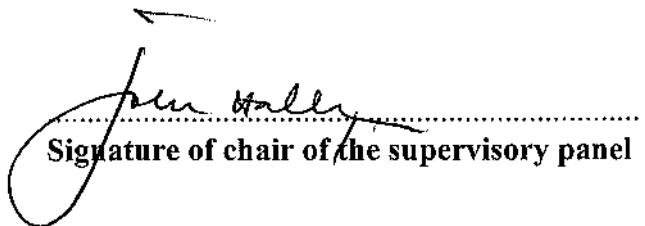
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Abstract

There have been numerous proposals to reform Australia's government structures, both prior to and since Federation in 1901, including calls for New Colonies and New States, Unification plans, Regional Government models spanning across the federal-unitary continuum, and proposals to transfer functions between Commonwealth and State governments, such as the modern day attempts by the Commonwealth government to establish a national Industrial Relations system. But while several functions have been transferred from the States to the Commonwealth since Federation, major changes sought by supporters of New States, Regional Governments and Unification have never been achieved.

The financial benefits possible through various reformed government structures are first examined in terms of claims and estimates that have accompanied past reform proposals. Financial benefits are then estimated for the four years from 1998-99 to 2001-02 using population and expenditure data, per capita expenditure comparisons, and various linear and non-linear regression techniques.

New States appear likely to cost in the order of \$1 billion per annum per New State, and possibly more if costs associated with State-Territory borders are taken into account, but their financial viability could be vastly improved if New State formation follows or is accompanied by functional transfers to achieve national systems in areas such as health and education.

It is estimated that Unification and some Regional Government models could achieve financial benefits in the order of five to ten per cent in both public and private sectors and the economy as a whole, which, in June 2002 dollar terms, would amount to some \$15 billion to \$30 billion per annum in the public sector, \$25 billion to \$50 billion in the private sector, and hence \$40 billion to \$80 billion per annum across both public and private sectors and the entire Australian economy. It is also estimated that for several functions, including education and health, unitary national systems under Commonwealth control could generate significant financial benefits, whereas for other functions, notably transport and communications, national systems could prove more costly.

Additional research could clarify estimates, but ultimately the only way to fully check estimates is to observe and measure actual reforms in action. If all State-Territory level health care functions, for example, were transferred to the Commonwealth government to achieve a fully

national health system, then the benefits and costs of such reform could be assessed with much more certainty than is possible through pre-reform empirical estimates. The establishment of a national health system could also diminish concerns that New States or Regional Governments might exacerbate problems associated with separate State laws, regulations and systems – problems likely to be tolerated least in health care given its life-and-death gravity. And for Unification advocates, a national health system would represent a significant step towards complete Unification across all functions.

Estimates appear to be robust when assessed in light of Commonwealth Grants Commission methodologies, differential levels of tax expenditures and privatisation across the current States and Territories, and Australia's economic and industrial geography, and on balance suggest that intelligent government structure reforms have the potential to significantly enhance Australia's financial and economic strength, and hence provide the financial capacity to achieve significantly improved social and environmental outcomes as well.

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Abbreviations

This thesis employs abbreviations listed below.

2FC	two function combination comprising Health and Education
3FC	three function combination comprising Health, Education, and Public Order and Safety
3L	Three Level government structure model
3LF	Three Level Functional Transfer government structure model
3PO	regression set comprising the three largest States by population: NSW, VIC and QLD
3PS	regression set comprising the three largest States by geopolitical size: NSW, QLD and WA
4FC	four function combination comprising Health, Education, Public Order and Safety, and General Public Services
4LA	regression set comprising the four largest States by population: NSW, VIC, QLD and WA
4YA	four year average
5MS	regression set comprising the five mainland States: NSW, VIC, QLD, WA and SA
6FA	six function combination A comprising Health, Education, Transport and Communications, Public Order and Safety, General Public Services, and Social Security and Welfare
6FB	six function combination B comprising Health, Education, Public Order and Safety, General Public Services, Housing and Community Amenities, and Recreation and Culture
6PS	regression set comprising the six largest States and Territory by geopolitical size: NSW, VIC, QLD, WA, SA and NT
6ST	regression set comprising the six States
7MA	regression set comprising all States and Territories besides the ACT
7MQ	regression set comprising all States and Territories besides Queensland
7MV	regression set comprising all States and Territories besides Victoria
7MW	regression set comprising all States and Territories besides Western Australia
8FC	eight function combination comprising Health, Education, Transport and Communications, Public Order and Safety, General Public Services, Housing and Community Amenities, Social Security and Welfare, and Recreation and Culture
8ST	regression set comprising all eight States and Territories
90L	90% lower confidence limit of estimate
90U	90% upper confidence limit of estimate
99L	99% lower confidence limit of estimate
99U	99% upper confidence limit of estimate
ABS	Australian Bureau of Statistics
AC	administrative cost

ACT	Australian Capital Territory
AE	actual expenditure; Access Economics
ACCI	Australian Chamber of Commerce and Industry
AHCS	Australian Health Care Summit (held in 2003)
AIHW	Australian Institute of Health and Welfare
AJPA	Australian Journal of Public Administration
ALL	all levels of government
ALNO	almost no fit of regression line or curve to actual data
ALRC	Australian Law Reform Commission
ar	relative actual per capita expenditure
ATSIC	Aboriginal and Torres Strait Islander Commission
AWSS	Australia-wide single State-Territory type unit
BAL	General Government Balance expenditure category
BCA	Business Council of Australia
BFD	Business Final Demand expenditure category
BGSCS	basic government structure classification system
BGS	basic government structure
BGSCS	basic government structure classification system
BGSN	basic government structure notation
b	billion
bpa	billion per annum
BPIC	Building Products Innovation Council
BRRU	Business Regulation Review Unit
BRTF	United Kingdom Better Regulation Task Force
CAT	expenditure category
CAI	Confederation of Australian Industry
CC	compliance cost
CCF	Constitutional Centenary Foundation
CEDA	Committee for Economic Development of Australia
CEN	central government only = Commonwealth or national government only
CER	cost of employing regulators
CGC	Commonwealth Grants Commission
CGS	complete government structure
CGSCS	complete government structure classification system
CGSN	complete government structure notation
CGST	complete government structure transformation
CGSTA	complete government structure transformation algebra
CGSTS	complete government structure transformation system
CLO	central and local levels of government only, excluding State-Territory governments
CO	core objective

COFOG	United Nations Classification of the Functions of Government
CR	composite regression
CSO	Central and State-Territory levels of government only, excluding local governments
CU	Australia's current government structure
DEST	Department of Education, Science and Training
DN2	Dual National Two Level government structure model
DN3	Dual National Three Level government structure model
DNC	Dual National Current Local government structure model
DSL	Dual National State-Local government structure model
EB	employing business
EDU	Education expenditure category
EE	estimated expenditure
EL	efficiency loss
EST	estimation technique
EXC	excellent fit of regression line or curve to actual data
EXPR	extremely poor fit of regression line or curve to actual data; exponential regression
F	functional transfer set
FAG	financial assistance grant
FC	fixed or overhead cost = fixed or overhead expenditure (FOE)
FOE	fixed or overhead expenditure
FS	Fewer States government structure model
FSC	Fewer States Current Local government structure model
FSRC	Federal-State Relations Committee
Fstat	F statistic
FT	Functional Transfer government structure model
FTC	Functional Transfer Current Local government structure model
GBE	Government Business Enterprise
GBP	Gross Business Product expenditure category
GDP	Gross Domestic Product
GOF	goodness of fit of a regression line or curve to actual data
GOOD	good fit of regression line or curve to actual data
GOV	General Government expenditure category
GPC	Australian Bureau of Statistics Government Purpose Classification
GPP	Gross Private Product expenditure category
GPS	General Public Services expenditure category
GSP	Gross State Product
GST	Goods and Services Tax
GTE	Government Trading Enterprise
HCA	Housing and Community Amenities expenditure category
HEA	Health expenditure category

HFC	Household Final Consumption expenditure category
HIA	Housing Industry Association
HRSCEFPA	House of Representatives Standing Committee on Economics, Finance and Public Administration
IMF	International Monetary Fund
las	land area share
LEV	government level
LGR	Local Government Reform government structure model
LOC	local government only
LOGR	logarithmic regression
LR	linear regression
M2G	moderate to good fit of regression line or curve to actual data
MAX	maximum or highest value
MCI	mass casualty incident
MED	median or middle value
MFC	multi-function combination
MFS	multi-function set
MIN	minimum or lowest value
MOD	government structure model
MSEB	multi-State employing business
MTE	moderate fit of regression line or curve to actual data
NAT	Single Level National government structure model
NCL	National Current Local government structure model
NE	New England
NL	National-Local government structure model
N_L	number of local government units
N_{LCU}	current number of local government units in Australia
NONE	no fit of regression line or curve to actual data
NPER	nearly perfect fit of regression line or curve to actual data
NRMA	National Roads and Motorists' Association
NS	New States government structure model
N_S	number of State-Territory type government units
NSC	New States Current Local government structure model
NSW	New South Wales
NT	Northern Territory
N_{ua}	number of units added
N_{ur}	number of units reduced
OECD	Organisation for Economic Cooperation and Development
OHS; OH&S	occupational health and safety
OLS	ordinary least squares regression method

OMB	United States Office of Management and Budget
P2M	poor to moderate fit of regression line or curve to actual data
PA	progressive amalgamation
PAT	progressive amalgamation technique
PC	paperburden cost; Productivity Commission
PCB	per capita benchmarking
PCC	paperburden and compliance cost
pd	relative population density = population density relative to that of Australia
PD	population density
PFD	private final demand
PO	primary objective
POOR	poor fit of regression line or curve to actual data
POS	Public Order and Safety expenditure category
pppa	per person per annum
PPU	principal political unit
PR	power function regression
ps	population share
PS	political size
PSC	Public Sector Corporations expenditure category
PT	power regression tangential extension
PUA; pua	per unit added
PubFD	Public Final Demand
PUR; pur	per unit reduced
QR	quadratic regression
QT	quadratic regression tangential extension
QLD	Queensland
r^2	coefficient of determination
\bar{r}^2	adjusted coefficient of determination
RAC	Recreation and Culture expenditure category
RB	Australia-wide relative benefit expressed in dollars, or billions of dollars
rb	Australia-wide relative benefit per person
RB%	Australia-wide relative benefit expressed as a percentage
RC	relative cost
RCGM	Regional Co-operative Government Movement
RCGPA	Regional Co-operative Government Plan for Australia
RE	relative expenditure
REG	regression set
ROCs	regional organisations of councils
RPA	Republican Party of Australia
RS	Regional States government structure model

RSD	relative standard deviation
SA	South Australia
SESCA	Standard Economic Sector Classifications of Australia
SFC	Simplified Fewer States Current Local government structure model
SFD	State Final Demand
SFS	Simplified Fewer States government structure model
SGP	geopolitical size
SL	State-Local government structure model
SLF	State-Local Functional Transfer government structure model
SNC	Simplified New States Current Local government structure model
SNS	Simplified New States government structure model
SPP	specific purpose payment
SRS	Simplified Regional States government structure model
SSEB	single-State employing business
SSW	Social Security and Welfare expenditure category
STL	State-Territory level of government including local government
STO	State-Territory only = State-Territory level of government excluding local government
STTU	State-Territory type unit
STU	State-Territory unit
TAC	Transport and Communications expenditure category
TAS	Tasmania
TCR	total cost of regulation
TE	tax expenditure
TEATPS	tax expenditure adjusted total public sector expenditure
TISR	Taskforce on Industry Self-Regulation
TOT	partial total
TPS	Total Public Sector expenditure category
UK	United Kingdom
VACC	Victorian Automobile Chamber of Commerce
VIC	Victoria
VPR	very poor fit of regression line or curve to actual data
VVPR	very very poor fit of regression line or curve to actual data
VG	very good fit of regression line or curve to actual data
VVG	very very good fit of regression line or curve to actual data
VVGE	very very good to excellent fit of regression line or curve to actual data
WA	Western Australia