

# Chapter 1

## Introduction

This thesis examines past estimates and establishes new estimates of the financial benefits possible through various government structure reform options that have been proposed for Australia, ranging from New States to the abolition of the States, or Unification.<sup>1</sup>

This introductory chapter has four sections. The first provides a brief historical background extending from Federation to contemporary challenges and reform opportunities. The second describes the general purpose and approach of the thesis, and its financial emphasis, and briefly introduces methodologies employed. The third presents the formal objectives that guide this study. The final section then briefly previews the three parts, 14 chapters and supporting appendices that follow.

### **Background**

Four constitutional reform options that have attracted significant support within Australia since Federation in 1901, and in some cases prior to Federation, are (1) the creation of one or more New States or Territories, (2) Regional Government models spanning the federal-unitary continuum, (3) Unification, or the formation of a unitary system of government without State and Territory units, and (4) functional transfers from the States to the Commonwealth to achieve national systems, such as the recent attempts by the Commonwealth government to establish a national industrial relations system. Regional governance structures have evolved over time, local government amalgamations have commonly occurred in most States, and several functions have been transferred from the States to the Commonwealth – in all cases facilitating partial unifications. The major changes sought since Federation by supporters of New States, Regional Governments and Unification, however, have never been achieved.

There is strong consensus that Australia's current government structures and systems have become dysfunctional and that comprehensive reform is urgently called for, especially in areas such as water management and health care (see, for example, Brown 2002a; 2002b; Wiltshire 2005: 32-34; see also Chapters 2 to 5 and their supporting appendices).<sup>2</sup> There is also a heightened awareness that Australia is unique in terms of its global isolation and distance from

world markets, and its geographic and climatic features generally, and hence faces severe disadvantages and costs which significantly impact upon the viability and profitability of Australian businesses and industries generally, and the manufacturing, agricultural and export sectors in particular.<sup>3</sup> The need to avoid complacency and take particular care in the design of competent and supportive government structures and regulatory systems is therefore particularly great for Australia. Structures and systems which could competently serve locationally advantaged countries in North America, Western Europe and parts of Asia may not be enough to reverse the economic decline Australia has experienced over much of the past 130 or so years.<sup>4</sup> Australia apparently needs *especially* competent and supportive government structures and systems.

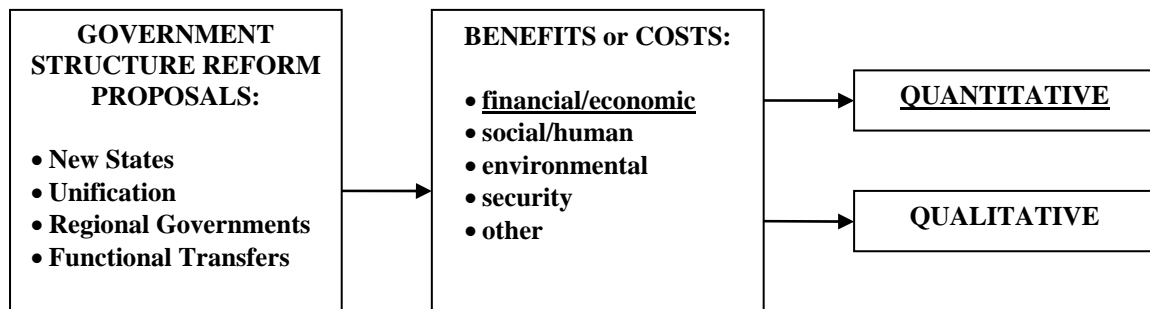
It is generally acknowledged that Australia's Constitution is difficult to change, and that a comprehensive government structure reform plan is therefore only likely to succeed if it is meritorious in terms of the financial and general benefits it could achieve, and effectively demonstrated as such to political leaders, other stakeholders, and the community at large. Wiltshire (1991: 13), for example, believes that "abolishing the states and local governments to achieve regionalism is a messy legal operation and involves so much lateral thinking that it is almost certainly to be feared to the point of obstinacy by most Australians", and observes further that "advocates of a unitary system have rarely followed their advocacy with a realistic alternative design" (Wiltshire 1991: 12). Jaensch (1997: 93) similarly claims that "given the time and argument which went into the question of a national freight organisation, the plan for reducing a three-level to a two-level system of government will be a Herculean task". The failure to achieve any New States since Federation suggest that the quest for New States has also proven to be a formidable task. It is also widely recognised that a state of gridlock has developed in which Commonwealth-State divisions and other dysfunctionalities that demand reform also act to impede and delay such reforms and hence exacerbate already grave problems, especially when adversarial party politics further frustrates reform efforts.<sup>5</sup>

The magnitude of the challenges faced by those who seek to comprehensively reform Australia's government structures – by forming New States, or Regional Governments, or a unitary system, among other possibilities – is fully acknowledged, and is one of the main motivations for this thesis. It is also acknowledged, however, as above, that unusually high levels of consensus have recently emerged on the need for comprehensive reform of Australia's government structures and associated regulatory systems, and that such consensus has created unique opportunities for reform success that has generally proven elusive in the past.<sup>6</sup>

## General Purpose and Approach

The general purpose of this work is to assess alternative government structures, including New States, Regional Government and Unification models, in terms of their financial benefits or costs relative to Australia's current government structure. The original plan was to first examine government structure reform proposals and then establish estimates of the financial benefits possible through such reforms, in both qualitative and quantitative terms, with an emphasis on quantitative financial benefits, as described in Figure 1-1 below (with emphasised elements underlined). It eventually became clear, however, that a significant thesis could be written on New States proposals alone, for example, and that this study should focus more exclusively on quantified estimates of the financial benefits of government structure reforms.

**Figure 1-1: Government Structure Reform Proposals and Estimated Financial Benefits**

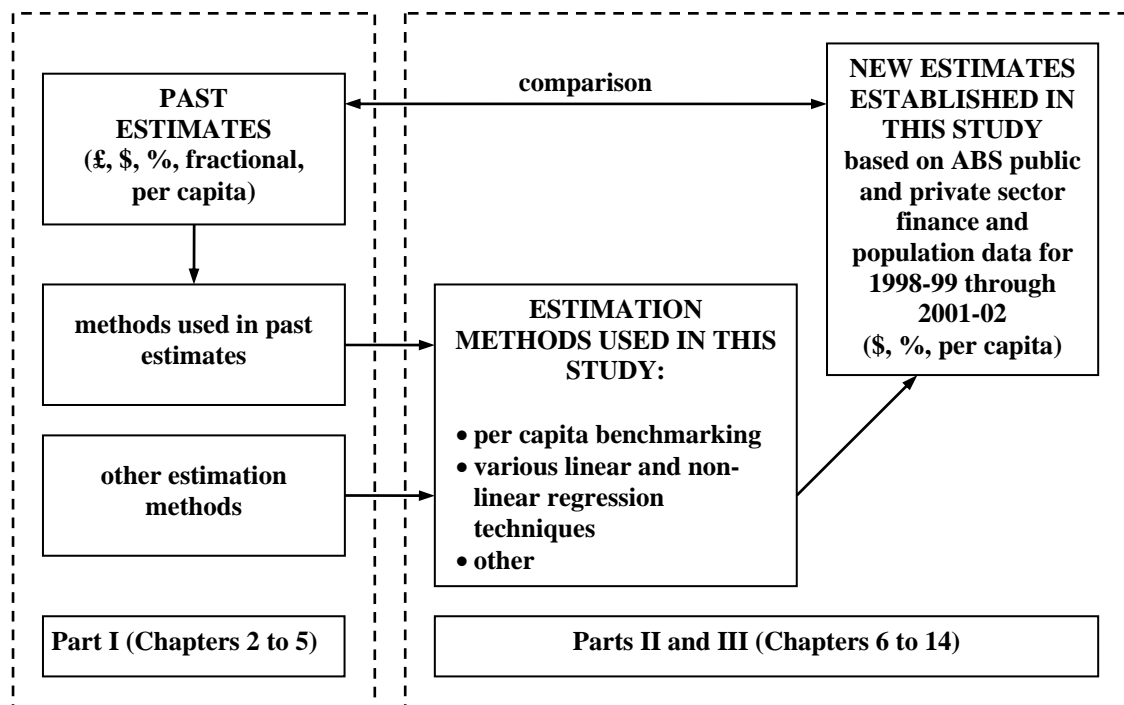


Part I of this thesis, and supporting appendices, provide extensive documentary evidence of the historical support for government structure reform in Australia, and the significantly increased levels of support for such reform that has emerged in the first decade of the twenty-first century. The study does not seek to endorse any one particular government structure design, but it does aim to establish an analytical framework through which government structure alternatives can be classified, compared, and assessed in terms of their financial merit, so as to generally assist government structure reform advocates and others considering such reform options.

### *General Approach*

The general approach adopted here is to first examine past estimates of the financial benefits of Australian government structure alternatives, relative to Australia's current government structure, and then establish new estimates of such relative financial benefits using appropriate estimation methodologies, as described in Figure 1-2 below.

**Figure 1-2: Estimating the Relative Financial Benefits of Government Structure Alternatives**



The financial benefits possible through various reformed government structures are first examined in terms of quantified estimates that have accompanied past reform proposals, ranging from a Unification proposal of NSW Premier Sir George Dibbs in 1894 to contemporary estimates. New estimates are then established for the four years from 1998-99 to 2002-02, using population and expenditure data obtained from the Australian Bureau of Statistics (ABS), per capita expenditure comparisons, and various linear and non-linear regression techniques.

Past estimates, which are described and briefly analysed in Part I, range from "ballpark" claims or estimates, or "guestimates", with little or no supporting explanations or evidence, to more detailed estimates based on at least some methodology or rationale. Estimates are acknowledged as appraisals in their own right and also in terms of any methodological guidance they provide. Some of the more extreme claims and estimates appear to be exaggerated, but many estimates align closely with those established in Part III and appear to be quite sound. Relatively few of the past estimates provide significant methodological insights, but several past estimates described in Part I, which have accompanied plans for New States, Unification and local government amalgamations, have been based on per capita expenditure comparisons or regression techniques similar to those selected for use in Part III to establish new estimates.

Parts II and III build on earlier attempts to estimate the financial benefits of various two and three tiered government structure models using per capita benchmarking techniques for New

States and Regional Government type models, and regression techniques for unitary models (Drummond 1995; 1998; 2002; as presented in Appendices 1A, 1B and 1C), but this current study develops government structure classification systems and estimation techniques in significantly more detail than these earlier efforts.

Per capita benchmarking and regression techniques have been selected for use because several of their attributes make them especially well suited to this current study. These techniques have their limitations of course, but are very widely used, relatively straightforward and highly transparent. Collectively, they can take maximum advantage of ABS expenditure and population data available "off the shelf" to generate estimates of the Australia-wide expenditures of hypothetical government structure models based on the known expenditure patterns of Australia's current States and Territories. Australia-wide expenditure estimates can then be used to estimate the financial benefits of reformed government structures relative to Australia's current government structure.

The per capita benchmarking technique, used extensively in Part III to estimate the financial benefits or costs of three tiered New States type models and two tiered Regional Government models based on the Australian Capital Territory, employs per capita expenditures of Australia's current eight States and Territories as the basis for estimating the expenditures likely to occur if Australia possessed either more or fewer State-Territory type units than the current eight, noting that any New State or Territory style unit is likely to broadly resemble at least one of Australia's current eight States and Territories in terms of its population, land area and general character. The per capita benchmarking technique somewhat aligns with the *relativities* established in Commonwealth Grants Commission methodologies, as further explained in Chapters 8, 10 and 14.<sup>7</sup>

Linear and non-linear regression techniques, as commonly applied in cost accounting, econometrics and other disciplines, are used to estimate the financial benefits possible if the eight States and Territories horizontally amalgamated into a single State-Territory type unit in a process of either complete Unification across all public and private sector functions, or partial unification establishing national systems in just one or several functions such as education and health. Regression techniques are used to establish lines, curves and associated mathematical equations which best fit actual expenditure and population data and hence provide best estimates of the fixed or overhead expenditures and marginal per capita expenditures of Australia's current States and Territories, and the Australia-wide benefits or costs of complete or partial unification

processes. A total of 23 public and private sector expenditure categories are considered herein, and most of these are very well described by the expenditure versus population equations established using the linear and non-linear regression techniques.

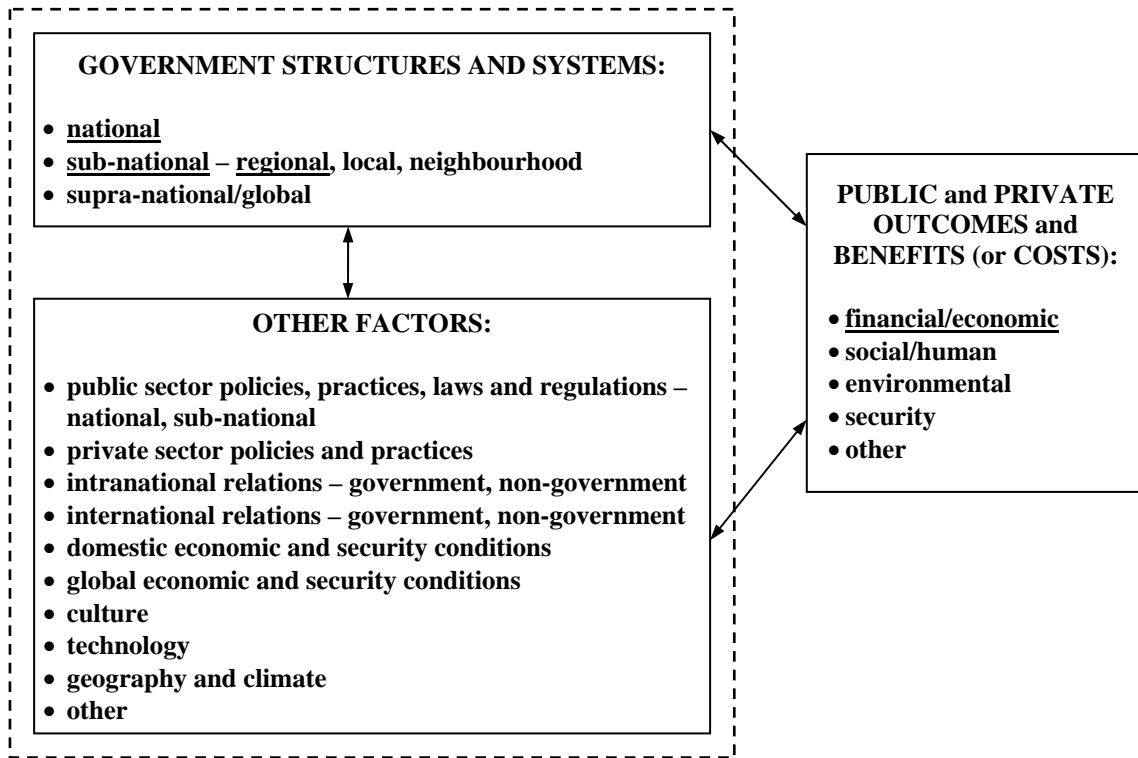
***Emphasis on the Financial Benefits of Alternative Government Structures***

It is fully acknowledged that non-financial considerations are often more important than purely financial concerns, and that a more comprehensive investigation might assess government structure alternatives in terms of the non-financial benefits and costs recognised in Figure 1-1 above. But it is also accepted that improved financial and economic outcomes can enhance opportunities to achieve improved outcomes socially, environmentally and generally. This work follows a financial emphasis, but recognises that financial benefits possible through government structure reform can facilitate improved outcomes generally for individuals, communities, businesses, society and the environment.

It is generally acknowledged in several overlapping literatures, including those on political geography, public sector management and reform, fiscal federalism, and institutional design, that government structures and systems can influence public and private outcomes and associated benefits or costs, as illustrated in Figure 1-1.<sup>8</sup> Government structures and systems are clearly not alone, however. A country's public and private outcomes also depend upon other factors such as government policies and laws, global and domestic economic and security conditions, intranational and international relations, culture, technological developments, geography and climate, and the manner in which these various factors interact, as illustrated in Figure 1-3 below (in which emphasised elements are again underlined and arrows can represent causation, influence, association and feedback responses).

This study is motivated by the belief and assumption that Australia's government structures can and should be designed to help achieve improved outcomes and benefits for Australia into the future – financially, socially, environmentally, and generally, and that such design should be guided by astute and realistic assessments of the other factors recognised in Figure 1-3, and Australia's associated advantages, disadvantages, options and constraints.<sup>9</sup>

**Figure 1-3: Government Structure and Other Factors which can Influence a Country's Public and Private Outcomes and Associated Benefits (or Costs)**



Adapted from Prescott (1972: 4-5, 14-15) and Masters and Sachs (2001: 4-5).

In the Australian context, the *public sector policies, practices, laws and regulations* and *intranational relations* factors in Figure 1-3 include intergovernmental relations and agreements between Commonwealth, State, Territory and local governments, and institutional structures such as the Premiers' Conferences, the Council of Australian Governments, Ministerial Councils, the National Competition Council, and the recently abolished Australian National Training Authority (Wiltshire 1991; Mathews and Grewal 1997; Painter 1998; Keating and Wanna 2000; Saunders 2002). Intergovernmental relations in Australia and other countries are often studied alongside government structures and systems, but are included among the other factors in Figure 1-3 because the Australian experience with intergovernmental relations, especially since the early 1990s, has generally assumed that Australia's current federal structure would remain wholly or largely unchanged, and has thus focused on reforms considered achievable *within* the limits of Australia's current federal structure, through *collaborative federalism* (Painter 1998; Keating and Wanna 2000; Saunders 2002), whereas this thesis specifically focuses on reforms that would significantly change Australia's government structure.<sup>10</sup> It is acknowledged that much has been done in the past and that more could be done in the future to achieve improved outcomes for Australians within the limits of Australia's current government structure, but comprehensive government structure reform options also merit serious attention if they show the

potential to achieve significant benefits financially and generally, especially if such gains exceed those possible under Australia's current government structure.

Chapter 5 briefly expands on the particular significance of Australia's geographic remoteness from global markets, its unique geographic and climatic circumstances generally, and associated economic challenges. The other input factors in Figure 1-3 are generally not considered further here, however, in order to limit the scope of this study to manageable levels, and because it is often difficult to separate matters of policy, culture, global economy and global security, for example, from political ideology and political debates, whereas this current work seeks to remain steadfastly neutral with respect to adversarial ideological and political debates.

## **Objectives**

This thesis is guided by a single *Core Objective* (CO) and six *Primary Objectives* (POs) designed to directly support the achievement of the Core Objective.

### ***Core Objective***

The Core Objective of this study is to *estimate the relative financial benefits of a comprehensive range of Australian government structure alternatives*.

The term *relative financial benefits* in the Core Objective refers to the financial benefits of government structure models relative to Australia's current government structure, where *benefits* can be negatively valued in cases where costs exceed benefits and net costs arise. In the Primary Objectives that follow below, the term *relative benefits* means *relative financial benefits* and *government structure alternatives* implies *Australian government structure alternatives*.

### ***Primary Objectives***

The six Primary Objectives are now presented in an order which reflects the primacy of the Core Objective, the general sequence in which objectives are addressed in the chapters that follow, and the logical sequence of prerequisites that need to be fulfilled in order to achieve the Core Objective in a competent and even-handed manner. Chapters in which Primary Objectives are substantially addressed are also indicated here.

*Primary Objective 1 [Chapters 2 to 10]*

Establish methods to estimate the relative benefits of a comprehensive range of government structure alternatives.

*Primary Objective 2 [Chapters 2 to 5]*

Survey past and present proposals to reform Australia's government structure, including those seeking (1) New States, (2) Regional Governments, (3) Unification, and (4) national systems in functional areas such as industrial relations, health, education, and law, order and safety.

*Primary Objective 3 [Chapters 2 to 5]*

Survey past and present estimates of the relative benefits, in both public and private sectors, of government structure alternatives including those formed through (1) New States, (2) Regional Governments, (3) Unification, and (4) the establishment of national systems in functional areas such as industrial relations, health, education, and law, order and safety.

*Primary Objective 4 [Chapters 6 to 10]*

Establish a classification system, or taxonomy, for government structure alternatives in terms of sub-national governments and the distribution of functions between national and sub-national governments.

*Primary Objective 5 [Chapters 10 to 14]*

Derive, present and interpret relative benefit estimates in a competent and even-handed manner.

*Primary Objective 6 [Chapter 14]*

Assess relative benefit estimates in light of Commonwealth Grants Commission methodologies, tax expenditures, privatisation levels, and Australia's industrial and economic geography.<sup>11</sup>

Primary Objectives 1, 3, 5 and 6 address the *estimate the relative financial benefits* component of the Core Objective. Primary Objectives 2 and 4 similarly address the *comprehensive range of Australian government structure alternatives* component of the Core Objective.

The Core Objective calls for results and Primary Objective 1 calls for methodologies that can produce these results. Primary Objective 1 follows directly from the wording and substance of the Core Objective, and is included here to ensure the development of robust estimation methodologies which can competently achieve the Core Objective.

Primary Objectives 2, 3 and 6 call for surveys of relevant historical developments and literatures, and facilitate stocktaking processes designed to guide the development of methodologies and results in response to the Core Objective. Primary Objectives 2 and 6 are employed to ensure that government structures considered are realistic and viable in terms of government structure reform proposals that have been promoted in the past and present, and Australia's economic and geographic circumstances generally. Primary Objective 3 is included to secure actual past estimates which new estimates derived herein can be compared with, and to generally guide the estimation methodologies established in response to Primary Objective 1 and the Core Objective.

Primary Objective 4 calls for systems of classification, or taxonomy, and is included here to ensure that a comprehensive range of alternative government structures can be described in a coherent and complete manner, as called for by the Core Objective.

Primary Objectives 5 and 6 are employed to enable competent and even-handed interpretations and evaluations of results obtained, and to generally enhance the robustness, quality and integrity of the study.

## **Parts, Chapters and Appendices**

The three parts, fourteen chapters and supporting appendices following this introductory chapter are briefly introduced below in turn.

### ***Part I – Chapters 2 to 5: Survey of Past Estimates***

Part I surveys and analyses past claims and estimates of the financial benefits possible through various government structure reform alternatives that have been proposed for Australia both prior to and since Federation in 1901, in order to (1) simply report and compare past estimates, (2) develop at least some realistic appreciation of the magnitude of the financial benefits possible through government structure reforms, (3) provide bases for comparison of the estimates presented in Part III, and (4) identify any estimation methodologies that might assist this current work.

Chapter 2 examines New States as proposed by Country Party leader Sir Earle Page, prolific New States advocate Ulrich Ellis, and others, and Regional Government models proposed by TNT transport company founder Ken Thomas, former Hawke government Minister Chris Hurford, and retired army officer Charles Mollison. Chapter 3 similarly assesses the financial benefits of Unification proposals, beginning with the 1894 plan by NSW Premier Sir George Dibbs to unify NSW and Victoria as a first step towards the eventual Unification of the whole of Australia. Chapter 4 looks at proposals to transfer one or more functions from the States and Territories to the Commonwealth to establish national systems, for functions including education, health, law, order and safety, and other individual functions and multi-function combinations. Chapter 5 then examines estimates established by the former Commonwealth Business Regulation Review Unit in 1986, Access Economics in 2005, and others in recent years, in order to estimate, at least in broad terms, the private sector and economy-wide costs of regulation and the financial benefits possible through government structure reforms along the lines of those considered in Chapters 2 to 4.<sup>12</sup>

## ***Part II – Chapters 6 to 9: Classifications and Data***

The methodology and results presented in Part III include classifications, symbology and numerical results in considerable volumes that could overwhelm in the absence of suitable bridging chapters. Chapters 6 to 9 present an initial round of classifications, definitions, notations, and data, in order to establish factual and classificational foundations which enable subsequent methodologies and results, in Part III, to be more manageably presented and better interpreted and contextualised when reached.

Chapter 6 briefly introduces the four financial years considered in subsequent analyses (1998-99 to 2001-02), Australia's nine principal political units in the form of the eight States and Territories and Australia as a whole, and a simple system of classifying the various levels of government. Chapter 6 also introduces the abbreviations Y for year, PPU as a collective label for Australia's nine principal political units, STU for the eight State and Territory units, U for PPUs or STUs generally, and LEV for levels of government.<sup>13</sup>

Chapter 7 defines the 23 *expenditure categories* (CATs) which are employed extensively in Part III. Five of these describe private sector expenditures, and the other 18 describe public sector expenditures. Six of the 23 CATs are classified as *major expenditure categories*, and two CATs – *Gross Private Product* and *Total Public Sector Expenditure* – as the most inclusive expenditure categories in the private and public sectors respectively, are further defined as the

*principal expenditure categories*. The 17 CATs besides the major CATs include single government functions such as education and health, and combinations of two or more such functions.

Chapter 8 presents, for all 23 expenditure categories defined in Chapter 7, the actual raw and inflation adjusted expenditure data used in subsequent analyses.

Chapter 9 first establishes a system of classification, or taxonomy, and associated notations, for a comprehensive range of government structure alternatives, in terms of numbers of sub-national political units, and the distribution of powers, or functions, among levels of government.

Chapter 9 then defines transformations between government structures, and introduces notations describing such government structure transformations.

### ***Part III – Chapters 10 to 14: New Relative Benefit Estimates***

Part III presents the relative benefit estimates obtained for selected government structure models using the classifications, data and preliminary results described in Part II.

Government structure models are assessed in terms of estimates of their *Australia-wide annual financial benefit relative to Australia's current government structure*, or *relative benefit* for short. The first section of Chapter 10 defines the relative benefit of a model in terms of the estimated public and private sector expenditure levels of that model relative to Australia's current government structure. Related measures of *relative expenditure* and *relative cost* are also defined. Subsequent sections then describes the various numerical techniques which are applied to ABS population and expenditure data to estimate the relative benefits of the models considered, including the *per capita benchmarking* technique, the *linear regression* technique, *nonlinear regression techniques* involving quadratic and power functions, and the *progressive amalgamation* technique. Chapter 10 defines two measures of overall relative benefit – *partial total relative benefit* and *full total relative benefit* – which provide the combined sum totals of private sector relative benefit and public sector relative benefit. Chapter 10 also describes various statistical methods that are employed, where possible, to check the accuracy and precision of the estimates obtained.

Chapter 11 provides relative benefit estimates for New States models based on the per capita expenditure levels of WA, SA, TAS and NT, Fewer States models based on NSW, VIC and QLD, and a Regional Government model based on the ACT, for cases in which no functions are

transferred from States and Territories to the Commonwealth. For Fewer States and New States models it is assumed that the total number of local governments across Australia remains unchanged. Chapter 12 provides estimates for the Unification model that would arise through the amalgamation of Commonwealth, State and Territory governments, with local government numbers again remaining unchanged. Chapter 13 displays estimates for four models hosting State or Territory type units but with one or more State-Territory functions transferred to the Commonwealth: the Functional Transfer models and New States, Fewer States and Regional Government models involving functional transfers.

Chapter 14 attempts to clarify and further assess the relative benefit estimates presented in Chapters 11 to 13 in light of Commonwealth Grants Commission methodologies, tax expenditures, the varying extents to which privatisation has taken place across the States and Territories, and Australia's industrial and economic geography.

### ***Chapter 15: Conclusions***

Chapter 15 concludes the thesis with summaries of the major relative benefit estimates presented for the government structure reforms considered, connections between newly established and past estimates, and other major findings.

### ***Supporting Appendices***

A number of appendices support this thesis. Those which most directly address the Core Objective are presented in Volume 2. Others are included on the Compact Disc located inside the rear cover of Volume 2. Appendices are labelled in terms of the chapter they support, or the first of several such chapters, and then with letters A, B, C, and so on, in the order in which they are first referred to. Appendices cover past proposals to reform Australia's government structures, levels of support for such reforms, data, details of methodologies employed, complete sets of relative benefit estimates and associated statistics, selected features of Australia's economy, geography and climate, and recommendations for further research and reform.