

Chapter 15

Conclusions

Australia's government structures have stimulated significant levels of debate and diverse reform plans from the decades leading up to Federation until modern times, often focusing on questions of affordability and financial viability. Comprehensive reforms have been difficult to achieve in Australia, and plans for New States and Unification have never been successful, but high levels of consensus have recently emerged on the need for significant reform of Australia's system of government and have created unique opportunities for success where past reform efforts have failed. This thesis offers empirical and analytical support for advocates of government structure reform and others with an interest in such reforms.

The core objective of this study has been to assess the financial merits of a comprehensive range of government structure reform options for Australia, such as New States, Unification, Regional Government models and Functional Transfer plans. These options have attracted varying degrees of support in past and current times. Part I examined financial benefit estimates that accompanied past reform proposals. Parts II and III then established new benefit estimates after first developing government structure classification systems and several relative benefit estimation techniques. Significant findings are now described in turn.

New States advocates have presented detailed arguments, significant research findings and statistical comparisons which demonstrated beyond doubt that (1) there are significant costs associated with metropolitan centralisation, concentration and congestion, and that New States provide one way of addressing such costs – though not the only way, and (2) that the NSW New England area, North Queensland and other Australian regions could almost certainly afford to support a State government. Less convincing, however, were claims that New States would generate net benefits on an Australia-wide basis. Arguments and analyses developed were not always found to be fully valid, but the more convincing claims appear to be valid today in 2007 as they were when first put forward several decades ago. Concerns about metropolitan congestion and concentration, for example, have probably become more valid over time as the populations of Australia's largest cities have grown.

Regional Government advocates have claimed that models comprising 30 to 100 or so regions could generate significant financial benefits, and these claims could well be valid, but only if

Regional Governments are vastly less bureaucratised than Australia's current State and Territory governments.

Unification advocates from prior to Federation to modern times have claimed that financial benefits in the order of five to ten per cent could be achieved if Australia's Commonwealth, State and Territory governments united to form a single national government. It has also been estimated that national education and health systems could generate financial benefits in the order of five per cent. Significant costs associated with State and Territory borders and border anomalies were also identified, possibly amounting to over one billion dollars per annum in the health and community services sector alone. Several separate attempts to quantify the overall costs of regulation in Australia have also suggested that private sector and economy-wide benefits in the order of five to ten per cent may be achievable if Australia's regulatory systems were rationalised through partial or complete Unification or other comprehensive reforms.

There have also been claims that Regional Government models, complete Unification or national approaches to health could reduce the costs of government by one-third or more. These extreme claims could be valid for central office and other bureaucratic components within Australia's health sector and public sector overall, but could not realistically apply to the whole of these sectors given that nurses, teachers and police officers alone collectively account for more than 50 per cent of Australia's public sector employees.

The second part of the thesis presented data, public and private sector expenditure categories, government structure classification systems and other preliminary results which established essential foundations for the third part of the thesis in which the core objective was most directly addressed. Government structure classification systems established can be viewed as ends in themselves which could find use in other applications, but their main role in this thesis was to classify the government structure models assessed in Part III in terms of their financial benefits relative to Australia's current government structure.

The third part of the thesis described the relative benefit estimation techniques employed and the relative benefit estimates established using such techniques for selected government structure models defined in Part II. It also assessed estimates in light of Commonwealth Grants Commission methodologies, and State and Territory tax expenditures, privatisation levels, and industrial and economic geographies.

For public sector expenditure categories, the relative benefit of a given structure is defined as the expenditure of Australia's current system of government minus the expenditure estimated for the alternative structure under assessment. So for public sector expenditure categories, a positive relative benefit will represent public sector expenditure reduction or savings. For private sector expenditure categories, the relative benefit of a government structure is defined as the expenditure estimated for the alternative structure minus the expenditure of Australia's current system. So for private sector expenditure categories, a positive relative benefit will represent a private sector expansion. These definitions are based on the modest assumptions that reductions in taxation and public sector expenditure are inherently beneficial, all else being equal, if achieved by reducing bureaucratic and regulatory duplication and wasteful public sector activities and expenditures generally, and that private sector expansion is inherently beneficial if achieved through improved government structures and regulatory frameworks which reduce or eliminate wasteful impositions upon the private sector. It is also acknowledged that private sector financial or economic benefits can enable the achievement of superior social and environmental outcomes.

New estimates established in this thesis using a per capita benchmarking technique suggest that New States may be prohibitively expensive if established in large numbers across the whole of Australia, but the public and private sector costs of just one or a few New States may only amount to one or a few billion dollars per annum if expenditure patterns of newly formed units resembled those of Tasmania and the Northern Territory. Whilst certainly not financially attractive, a small number of New States would appear to be affordable, at least, and would probably be most viable for regions in the central and northern parts of Western Australia and Queensland with populations ranging from 100,000 to 500,000 or so. Such regions have large land areas and associated potential for mineral wealth, and could avoid significant border costs if borders were placed through areas with little or no population. New States models are likely to be extremely costly if their expenditure patterns resemble those of South Australia, Tasmania or the Northern Territory. Fewer States models, conversely, could attract benefits of approximately seven per cent overall if expenditure patterns of New South Wales, Victoria or Western Australia could be achieved Australia-wide.

New estimates suggest that a Regional Government model comprising some 60 regions Australia-wide, based on the current ACT government model and ACT expenditure patterns, could probably achieve a slightly positive relative benefit in the public sector, but would probably generate a highly negative relative benefit, or a relative cost, in the private sector, and

a large negative benefit overall across both private and public sectors, although data limitations and the ACT's unique mix of public and private sectors raise serious doubts about all ACT-based estimates established herein.

Estimates obtained using various regression techniques suggest that Unification 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.

Estimates for Functional Transfer models, again established using regression techniques, suggest that for several individual functions including education and health, and for several combinations of two or more functions, national systems under Commonwealth control could generate significant financial benefits, in the order of five per cent or more, whereas for other functions, notably transport and communications, national systems could prove more costly.

Estimates obtained using per capita benchmarking and regression techniques in combination suggest that New States and Regional Government models are likely to most viable, financially at least, if the formation of New State or Regional Government units was accompanied by functional transfers establishing unitary national systems in health, or education, or across several functions. The relative benefits of Regional Government models are likely to be significantly positive, and could approach or match the benefits estimated for Unification models if sufficient functional transfers take place.

Relative benefit estimates appear to be consistent with Commonwealth Grants Commission methodologies and the industrial and economic geographies of Australia's eight States and Territories, and are unlikely to be affected to any significant extent by differential levels of tax expenditures and privatisation across the States and Territories.

New estimates established for Unification and Functional Transfer models in Part III often show remarkably close agreement to some of the past estimates in the five to ten per cent range as described in Part I, for both the public and private sectors, and for several functional areas including health and education. Such agreement and mutual support among these estimates is probably one of the most significant findings of this thesis. Further research and actual reforms in action, as recommended in Appendix 15A, could improve all estimates established herein, but

it is certainly significant that many past and newly established estimates presented in this thesis suggest that Unification and Functional Transfer models can achieve relative financial benefits of approximately five to ten per cent.

Estimates established for Unification, Regional Government and Functional Transfer models in particular indicate 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.