

## **Chapter 3**

### **Past Estimates of the Financial Benefits of Unification**

Numerous Australians have called for Unification, or the pursuit of a unitary system of government for Australia, both prior to and since Federation in 1901, and many such proposals have been accompanied by supporting rationales and various qualitative and quantitative claims and estimates of the financial and general benefits possible through Unification. Chapter 3 surveys claims and estimates of the financial benefits of Unification which have been quantified in pounds, dollars or in percentage or fractional terms.

This chapter has seven sections. The first presents ten quantified claims and estimates of the financial benefits possible through Australian Unification, in a more or less chronological order beginning with estimates prepared by NSW Premier Sir George Dibbs in 1894. The second briefly examines further claims and estimates that Unification can achieve a financial benefit of billions or millions of dollars per annum. The next four sections then describe claims and estimates which do not accompany actual Unification proposals, but which nevertheless provide significant insights into the magnitude of the financial benefits of Unification and some methodologies that can help estimate such benefits. The third section briefly describes claims and estimates by NSW Opposition Leader Peter Debnam in 2006 on savings possible through reforms within NSW alone. The fourth looks at claims and estimates of the financial benefits possible through local government amalgamation, noting that Unification can be viewed as an amalgamation of Commonwealth, State and Territory governments. The fifth examines the costs associated with State and Territory borders to provide insights into the financial benefits possible if such costs were reduced or eliminated through Unification. The sixth considers evidence providing insights into the financial benefits possible if Commonwealth and State-Territory governments vertically integrated to form a single national government. The chapter concludes with a brief summary of major findings.

This chapter is supported by several appendices which describe a significant number of past Unification proposals, along with supporting rationales and qualitative claims and estimates, sufficient to clearly establish that Unification has been pursued seriously in Australia since the nineteenth century.

## Quantified Estimates of the Benefits of Unification

This section summarises quantified financial benefit estimates that have accompanied the Unification proposals of politicians, academics and authors: Sir George Dibbs in 1894; Albert Church and John Boyd Steel in 1913; Arthur Griffith in 1927; Warren Denning in 1930; Jim Snow since 1990; Peter Consandine in 1991; Rodney Hall in 1998; Lance Endersbee in 1999; Ray Brownlee in 2000; and Bruce Felmingham in 2006.<sup>1</sup> This section also refers to estimates established in 2002 (Drummond 2002) and referred to in the 2003 report by David Hawker and others on the House of Representatives Inquiry into Local Government and Cost Shifting.

### *Dibbs' 1894 Estimate that Unification Could Save at Least £1,400,000 Per Annum*

New South Wales Premier Sir George Dibbs, in a 12 June 1894 letter to Victorian Premier Sir James Patterson (reproduced in Crisp 1980: 52-76), called for the Unification of New South Wales and Victoria and compares this plan with the proposal for a Federal Commonwealth:

Let me contrast the two proposals. The Commonwealth proposals would, as indicated, involve an additional charge of £1,325,000 per annum: would convert exclusion into wasteful competition between the colonies; would divide the vast surplus revenues of a powerless "Supreme Government" unfairly; would add greatly to the already cumbersome nature of our respective legislatures; and would have our official representatives in London even more hampered and antagonistic than they are now. It would simply, be a machine for collecting large revenues, without the least control over their expenditure; and at many points the bill is altogether contradictory and unworkable. Effective unity, on the other hand, as I have endeavoured to make clear, could save the two colonies [NSW and VIC] at least £1,440,000 annually in our expenditure – a most important consideration at this crisis in our history:

Reduced interest on the joint debt (a saving to be increased after a time to £1,000,000)	: £540,000
Gain on railway administration	: 500,000
Savings in other departments from combination, fully	: 400,000
[Total]	£1,440,000

Dibbs envisages mutual benefit among private and public sectors alike when he adds further, in this letter to Patterson, that "in added prestige, the internal market strength in the unfettered enlargement of markets, in the supremacy of the national Legislature, and in addressing the British Government with one voice, the gain would be immediate and steadily increasing".

Towards the end of his 12 June 1894 letter, Dibbs sets out his estimates that "the revenue of the two united Australian provinces would, in round figures, be ... £16,700,000" and "the expenditure would roughly be ... £13,300,000", so his £1,440,000 savings estimate, in terms of 1894 currency, amounted to 8.6% of the estimated revenue total of £16,700,000, and 10.8% of

the estimated expenditure total of £13,300,000. Dibbs therefore estimated that Unification would achieve public sector financial benefits of approximately 10 per cent.

Dibbs' support for Unification is described in more detail in Appendix 3A, in which pre-Federation Unification proposals are described. Extensive extracts of Dibbs' 12 June 1894 letter are shown in Appendix 3B.

### ***Claims and Estimates by Church and Steel in 1913***

Albert Church attempts to quantify the financial benefits possible through Unification in several passages of his 1913 book *Australian Unity: A Political Work Dealing Exhaustively with the Subject of Unification in all its Aspects, and Proposed New Constitution for Australia*. He claims that (Church 1913: 1):

A dozen years ago Australian unity sought expression by the inauguration of that legislative and administrative body known as the commonwealth Parliament. Australian citizens in the mass fondly imagined that this experiment would provide the nation with a strong, efficient, central government. Never were people more misled. They also expected to see the State Parliaments much reduced in numbers and in expensiveness of equipment. Here, also, their hopes met with disappointment. The ordinary citizen, reasoning from a commonsense point of view, considered as a foregone conclusion that these lesser public institutions would act concertedly if not in actual subordination to the more important National government. ... The plea of economy was one of the strongest arguments in favour of Federation, which, so far, has merely piled on the agony of additional expense.

Church (1913: 38) acknowledges that "the cost to the nation at large, resulting from that constitutional weakness which renders the National Government unable to cope with city vested interests and other national evils – is not easily reduced to a cash basis", but makes several attempts nevertheless to quantify such costs. In respect of "superfluous haulage" costs, he notes (Church 1913: 38) that the *Sydney Bulletin*, "a reliable financial and statistical authority, and almost the only fearlessly outspoken Australian paper on these national subjects, estimates that £600,000 per annum is wasted in New South Wales on superfluous haulage alone", and that "it should not be excessive to estimate another £400,000 for the same evil of needless haulage to Perth, Adelaide, Melbourne, and Townsville", so that "on this item alone, then, a cool million a year is lost to the Commonwealth". He also attempts to quantify the costs associated with rail arrangements as a result of duplication and congestion (Church 1913: 39), raising concerns similar to those later raised by Ellis and others in support of New States – the common concern being centralisation, concentration and congestion, as described in Chapter 2:

Another positive item to be reckoned in this same account is that reckless swelling of the national debt (perhaps to the tune of 15 or 20 millions) in duplicating Sydney railways. Not only is there the expense of this work, which is now going on, but it will tend still further to crush the weak ports, and still further crowd the congested traffic facilities of Sydney. There is also the

loss from congestion of railway traffic caused by the produce of a whole State converging to one point. Take the losses of the farmers, whose wheat during the busy season – on occasions as much as 4,000,000 bags at a time – has to be stacked at railway stations and country stations, because trains cannot travel fast enough to cover the long distances to port. ... Losses from weather, delay of perishable goods, and, failure to reach markets at critical periods, must already have amounted to many thousands.

Church (1913: 43-44) recalls that Sir George Dibbs, in 1894, "estimated that in railway rates, abolition of border duties and other State disabilities, a saving of 1½ millions per annum would be effected in regard to Victoria and N.S. Wales only" and that "at the time of Federation £8,000,000 per annum was the amount of saving that financial authorities expected a centralised government to effect". He also (Church 1913: 43) quotes John B. Steel's estimate that Unification can save six million pounds per annum:

Unification means Australian unity, one national, supreme, authority in Australia, one Land Law, one Mining Law, one Judicature, one Financial System, one Debt, one Sinking Fund, one Banking Act, one Railway System, one Railway Gauge, one Postage System, one Set of General Health laws, Quarantine Regulations, Arbitration Laws and Wages System, one School and Police system, one Governor-General, and one Parliament with full provision for Provincial councils locally elected to manage the local affairs of Australia – reserving to the National Parliament sole control of National affairs as in every other country on earth. Savings six millions per annum.

Church (1913: 44) claims further that "it is a very moderate inference to estimate that a properly united government could to-day save at the rate of £6,000,000 annually", given "the increased population and prosperity of to-day" and the "savings that have been effected by the half Federated government we now possess".

Steel's Unification proposals are further described in Appendix 3C, in which the Unification proposals and policies of the Australian Labor Party are also described. Appendix 3D describes post-Federation Unification proposals generally, and Appendix 3E provides a compilation of media reports since 1986 describing proposals to abolish State governments and related issues.

### ***Griffith's 1927 Claim that Unification could Reduce Costs by One-third***

Arthur Griffith was the NSW Labor Government Minister for Public Works from 1910 to 1915 and Minister for Public Instruction from 1915 to 1916 (NSW Parliament 2003) and, according to Davis (1951: 505), "an ardent advocate of Unification". In a 1927 submission to the Commonwealth's Royal Commission on the Constitution, Griffith (1927: 1625, as cited in Davis 1951: 506) claimed that (emphasis added here):

We have seven enormously costly public services and we have seven railway departments. We have in the Commonwealth as well as in every State a Crown Law Department. ... In every State there is a Treasury Department. In every State there are departments of public health, and public

works, duplicating the reduplicating, and making the cost absolutely ruinous ... *we can reduce the cost of government by about one-third – as it can be done, because the services would be continued but the overlapping would cease, the duplication would be ended.*

Griffith's "one-third" cost reduction claim, like Thomas' "less than half the cost" claim as described in Chapter 2, could well apply to some of the more bureaucratic central office components of the public sector, but could not validly apply to the public sector as a whole, noting that the majority of public sector employees are teachers, nurses, police officers and others working in "coalface" service provision units rather than central office bureaucracy.

### ***Denning's 1930 Estimate that Unification could Save a Few Million Pounds a Year***

In a 1930 publication titled simply *Unification*, published by Labor Daily in Sydney, Warren Denning (1930: 11-12) presented costings as follows (along with Australia-wide totals not shown in Denning's original version):

... we find that the cost of Parliamentary Government in Australia is reaching excessive figures. Some of the heads under which it is summarised are here shown:-

#### TOTAL COST OF PARLIAMENTARY GOVERNMENT

Com'th	N.S.W.	Vic.	S.A.	W.A.	Qld.	Tas.	Total
£550,414	£248,744	£148,816	£106,703	£115,383	£109,887	£37,258	£1,317,205

Chief items on this heavy bill of costs were:-

#### COST OF GOVERNOR-GENERAL AND GOVERNORS

Com'th	N.S.W.	Vic.	S.A.	W.A.	Qld.	Tas.	Total
£31,272	£10,548	£15,890	£12,331	£8,475	£8,034	£4,908	£91,458

#### COST OF MINISTRIES

Com'th	N.S.W.	Vic.	S.A.	W.A.	Qld.	Tas.	Total
£18,707	£29,137	£10,000	£8,346	£7,868	£12,794	£4,050	£90,902

#### COST OF PARLIAMENTS

Com'th	N.S.W.	Vic.	S.A.	W.A.	Qld.	Tas.	Total
£231,166	£178,800	£88,947	£58,895	£86,746	£72,357	£26,087	£742,998

#### COST OF ELECTIONS

Com'th	N.S.W.	Vic.	S.A.	W.A.	Qld.	Tas.	Total
£237,762	£25,618	£32,960	£13,192	£11,786	£15,660	£1,526	£338,504

Denning (1930: 12) further claims that the duplications as above represent "only one phase, and a relatively small one, of the duplication of State and Commonwealth expenditure":

Here alone, we believe, nearly half a million could be saved each year. But contemplate the duplication which is going on in a dozen different departments. Arbitration is one. Health is another. There are six separate State health authorities, a Federal health authority, and a Federal health council to make some attempt at co-ordinating the work of these seven departments. The overhead expenditure on several central departments when one would suffice must be enormous.

Denning (1930: 12) estimates that Unification can save, "perhaps, a few millions a year in administration", but adds that such gains are by no means the only or most important benefits of Unification, and that "there are larger, more intangible factors involved which deserve an immense amount of attention".

### *Estimates by Snow Since 1990*

As the Federal Member of Parliament for Eden Monaro between 1983 and 1996, Jim Snow made several statements on the public record which included claims or estimates of the Australia-wide financial benefit possible if State and Territory governments were abolished, leaving Australia with just a national government and local or regional governments. Several of these statements now follow (see also Snow 1998; 2002; 2003; 2005).

A media release from Snow's office, dated 10 October 1990 (see also Peake 1991: 3) reported that in a "motion presented to the Parliament" Snow sought to have "the federal system replaced with national and local governments only". Snow (1990) refers to "the huge costs of the federal system" and the potential to save \$6.5 billion per annum through road and rail reform, as just "one example of the possible savings". Snow then moved a motion in favour of Unification in the House of Representatives on 20 December 1990 (see also Snow 1998: 27; Burgess 1990: 1; Australian National Audit Office 1990):

Mr SNOW (Eden-Monaro) (12.03) – Mr Deputy Speaker, I move:

That the House determines that the government should proceed to use its powers and seek additional powers from the people, if required, to disburse all State powers to federal and local government, as appropriate, and the administration of many federal programs to local government.

The present system of government in Australia is costly and inefficient. The State boundaries, which were drawn up in London, bore no relationship whatsoever to the communities in Australia – communities around ports and communities at larger territories in inland Australia.

Today, we have 15 chambers of parliament, which is all right if we are interested in party jobs for the boys or occasionally the girls. ... We have State government cutting one another in their prices for power. We have State governments competing for industries and being prepared to offer lower prices to firms which will come into their States. Who ends up paying for those price cuts? The ratepayers, the other people who pay for power in those States.

...

Industrial relations ought to be under the Federal Government. Economic management is another area where national standards should apply. The *Canberra Times* [Burgess 1990: 1] recently drew attention to the fact that more than \$6 billion of Commonwealth money given to the States in 1988-89 had not been accounted for by July 1990 according to an Australian National Audit Office survey. That is disgraceful ...; \$6 billion was not properly accounted for.

...

I strongly support a move to a two-sphere system of government, which will be less costly and less confusing, which will reduce buck-passing ...

Articles by Crouch in the *Sunday Telegraph* and Fray in the *Age*, both dated Sunday 1 August 1993, describe further efforts by Snow in the Commonwealth Parliament, including claims that Unification could achieve financial benefits of "more than \$10 billion a year" (Crouch 1993: 15; see also Fray 1993: 19). On 10 February 1994, Snow again spoke in favour of Unification in the House of Representatives, and again claimed that "at least \$10 billion could be saved by rationalising government in Australia".

In the latter half of 1994, a collaboration began which produced an estimate that Unification could "improve Australia's fiscal standing by approximately 15 billion dollars per annum" (Drummond 1995: 20; see Appendix 1A). This \$15 billion estimate was established almost totally independently of Snow's earlier estimates, in 1993 and 1994 as above, that Unification could achieve financial benefits of \$10 billion per annum or more. The similarity of these various estimates therefore provides at least some degree of mutual confirmation that the financial benefit of Unification is likely to be in the order of \$10 billion per annum, in the public sector alone.

### ***Consandine's "better government at less than half the cost" Claim in 1991***

Peter Consandine founded the *Republican Party of Australia* (RPA) in January 1982, and later established the *Regional Co-operative Government Movement* (RCGM) as "the non-political, educative arm" of the RPA (Consandine 1991: 1). In March 1991, Consandine (1991: 3) and his RCGM prepared a *Regional Co-operative Government Plan for Australia* (RCGPA) which proposes that "we should do away with our six States and two Territories plus all Local government and establish 50 Regions, each with its own 10-person Legislative Assembly elected by Proportional Representation". Fifty regions is an apt number, according to Consandine (1991: 6), "because about 340,000-350,000 residents, on average, is a manageable and comprehensive size for a Region", though "outback Regions would have fewer residents and densely populated Capital City Regions would have more".

Consandine (1991: 7) believes his 50 region model can eliminate the "enormous duplication of public service empires at the State and Federal levels", and hence achieve "better government at less than half the cost", reduced taxation levels, and "an increased standard of living". But his "less than half the cost" claim, like that of Griffith as above and that of Thomas as described in Chapter 2, could again only validly apply to a fraction of the public sector rather than the public sector as a whole.

### *Estimates Claimed by Hall in 1998*

Rodney Hall's 1998 book *Abolish the States!* claims that the financial benefits of Unification amount to an estimated "\$30 billion each year", where \$25 billion of this figure "represents the savings achievable if regional governments are established in place of the present state, territory and local governments", and "a further \$5 billion is unnecessarily spent in state rivalries to attract overseas investment" (Hall 1998a: 24, 26; see also Hall 1998b: 13). This \$30 billion estimate is further described in the Appendix to Hall's book (Drummond 1998: 97-112), which is included here as Appendix 1B. The estimates appearing in Hall's book, or earlier or later versions of the same basic estimates, have been widely acknowledged by supporters of Unification, or the abolition of State governments. According to Woldring (2004: 118; citing Hall 1998a; Drummond 2002), for example, "creating two levels of government, instead of the present three, could save somewhere between \$20 to \$45 billion per annum and result in much greater efficiencies of governmental activities, allowing funding for goods and services not now available".<sup>2</sup> More than 30 of the 509 media reports presented in Appendix 3E acknowledge \$30 billion as an estimate of the annual benefits of Unification, often in conjunction with Hall's 1998 book.

Hall's claim that "money spent by states and territories competing against each other to attract foreign investment amounts to \$5 billion a year" (Hall 1998a: 42; see also Hall 1998b: 13) is based on statements from the Productivity Commission (PC) in 18 April 1997 that were reported by Bitá (1997: 9) the following weekend in the *Weekend Australian* newspaper. This \$5 billion a year figure and its sources are explained in more detail in Appendix 3F.

Concerns about the costs of inter-State bidding wars and State-based industry assistance generally have usually focused on how such assistance has encouraged the duplication of industries and manufacturing plants across all or most States, and associated resource misallocations and economic distortions, hence preventing the achievement of scale economies in production at the most economically, geographically and socially advantageous locations, to the detriment of economic, social and environmental outcomes at national, State-Territory and more localised scales.<sup>3</sup> Wasteful competition within Australia's federal system, according to Tisdell (1974: 18; see also 401):

has led to interference in markets by state governments and this has reduced potential output from Australia's resources. Each state has understandably attempted to improve the share of its state in promising new ventures. Each state has competed with others in an attempt to persuade large firms to establish plants there rather than in another state. As an inducement, raw materials such as minerals and electricity have been made available to firms at reduced prices and often



roads and associated works have been provided at low rates. In some instances, this competition has encouraged wasteful duplication of plants.

Caves (1984: 347), like Hall (1998) and others, concludes that State government policies frequently "aimed at the multinationals" have "contributed to geographic dispersion and small scale in industries where foreign subsidiaries are prevalent". Caves (1984: 315, 321) also notes that "the strangling limitation on productivity for Australian manufacturing is thought to lie in the difficulty of attaining economies of scale", and that:

State policies of subsidizing local industrial development have promoted branches of each industry in each manufacturing sector. As a consequence, Australia's manufacturing centers are surprisingly nonspecialized, and the typical industry is spread rather evenly among them. These factors add another important deterrent to efficient scales of production.

Baumol et al. (1992: 418; see also 433; Caves 1984: 313-347) similarly observe that Australia's "domestic market for goods and services is too small for many industries to attain appropriate economies of scale", as "for many years, state governments have pursued policies of subsidising local industrial development in order to attract industry to their state", hence often resulting in "the establishment of plants by individual firms in a number of states when, perhaps, one larger plant would have been more efficient." Walmsley and Sorensen (1993: 120, citing Linge 1987: 147) note, as an example of an especially "absurd pattern of production", that "in 1960 Australia had sixteen refrigerator manufacturers, operating at twenty locations, competing for an annual local market of about 350 000 units", whereas "overseas, 500 000 units per plant was regarded as a minimum efficient yearly throughput".

Chapters 5, 12 and 14 provide further insights on the "\$5 billion a year" claimed and estimated by Hall and others as above. Chapter 5 examines the private sector and economy-wide costs associated with State and Territory government regulations, and several numerical estimates of the benefits possible through government structure and regulatory reform. Chapter 12 includes estimates of the relative benefits possible in both public and private sectors if Australia had no State governments. Chapter 14 then examines Commonwealth, State and Territory tax expenditures with an emphasis on their possible impact upon the results derived in Chapter 12.

### ***Endersbee's Estimate of "tens of billions of dollars each year"***

Professor Lance Endersbee (1999) believes that Australia's Constitution "now presents a major impediment to our national progress":

It preserves the concept of sovereign states, each with their own laws and bureaucracies. It is an unreal concept in a world of globalisation and international financial manipulation, where the states could be quite vulnerable. There are many needless differences in laws from state to state

which could be unified. There is a corresponding bureaucracy at national level, monitoring state expenditures. There is continued frustration of trade across state borders, and thereby, international trade, eg. separate state rail and port systems.

Endersbee (2000) later explains how such impediments impact adversely throughout the Australian economy, across both public and private sectors:

The growth in the services sector in the Australian economy relative to production has continued for fifty years. It has been exacerbated by the duplication of activities by national and all state governments, for example separate laws and regulations for a wide range of industrial, commercial and social affairs. The cost of such duplication finds its way into taxes, which are then a burden on every enterprise. The overall effect in Australia has been continued pressure on the production sectors of our national economy, a decline in infrastructure development, sale of public assets, an increase in services and various forms of social welfare, and increased national indebtedness. The cost of our imports consistently exceeds the value of our exports. As a result, Australia is living off savings – our own and that of other people.

Endersbee (1999; see also 2000) estimates that "this incredible duplication of activities from state to state, and between the states and the Commonwealth, creates enormous costs, amounting to tens of billions of dollars each year ... a burden of cost which is carried, through taxation, by every enterprise in Australia". Government structure reform may therefore "be forced upon us by economic reality" (Endersbee 2000).

### ***Brownlee's "\$50 billion a year" Estimate***

Retired accountant Ray Brownlee (2000: v), in his book *Vision of a New Society: One Parliament One Tax*, proposes a new model of government for Australia in which:

Australia's fifteen parliaments would be replaced by a single legislative body elected by proportional representation from each of forty regions. Uniform laws of the one parliament would be administered in each region by a decentralised public service answering to a council of the region's seven or so MPs. State and local governments, and the senate, would be abolished.

Brownlee (2000: 26) believes his model can reduce "the overall number of parliamentarians by two-thirds"; "could well halve the number of public employees, without detriment to services"; and can overcome the "wastefulness" and "heavy overlapping and duplication that is an inherent feature of the multi-government system". Such wastefulness, according to Brownlee (2000: 26), "impacts on fixed costs that reflect the complexity of that system, and on the variable costs that reflect the volumes of work".

Using methods similar to those developed for Jim Snow in 1995 (Drummond 1995) and later shown in Rodney Hall's book *Abolish the States!* (Drummond 1998: 103-106; in Appendix 1B here), Brownlee (2000: 27-28) derives the similar estimate that there is "\$20 billion a year to be saved by replacing state and territory governments with forty structured like the A.C.T.", and

claims further that "the new commonwealth should be able to save a further \$30 billion at least from the elimination of the overlapping and duplication that would otherwise still exist". He hence arrives at the conclusion that "\$50 billion a year, indexed to 1997-98 values, is a conservative guesstimate of the savings to be derived from the parliamentary and administrative framework of the proposed new commonwealth" (Brownlee 2000: 27-28).

### ***Estimates in December 2002 Article***

The article 'Costing Constitutional Change: Estimating the Costs of Five Variations on Australia's Federal System' appeared in the *Australian Journal of Public Administration* (AJPA) in December 2002. This article is presented in full in Appendix 1C, and begins, in its abstract, with the claim that (Drummond 2002: 43) "results indicate that the Regional States or National-Local models could deliver greater decentralisation while saving over \$20 billion per annum compared to the present system".

It is estimated specifically that the horizontal amalgamation of the eight States and Territories into a single Australia-wide State-Territory level government could achieve a financial benefit of approximately \$10 billion to \$20 billion per annum in the public sector alone (Drummond 2002: 46-49), and that the integration of State, Territory and Commonwealth governments into a single national government, leaving local government and regional administrative arrangements otherwise unchanged, could achieve a financial benefit of approximately \$30 billion per annum, again in the public sector alone (Drummond 2002: 49-52). Following two previous efforts to assess the private sector costs associated with government regulation (Business Regulation Review Unit 1986: 3-5; Drummond 1998: 103-105), it is then claimed that the private sector benefit achievable, in a system comprising just national and local (or regional) governments, would be approximately half the estimated public sector benefit, hence \$15 billion per annum, therefore generating an overall financial benefit – across both the public and private sectors – of approximately \$45 billion per annum (Drummond 2002: 53). This thesis attempts to improve on these various estimates of the benefits possible through Unification.

### ***The 2003 Hawker Report's Reference to Estimates of \$20 Billion Per Annum***

The House of Representatives Standing Committee on Economics, Finance and Public Administration (HRSCEFPA) carried out an Inquiry into Local Government and Cost Shifting, chaired by David Hawker MP, the report of which began by stating that "this major Inquiry ... has addressed not only the matter of cost shifting" but has "also revealed the underlying issues

relating to governance arrangements between the three spheres of government" (Hawker 2003: vii). This report twice refers to the estimates presented in the AJPA article (Drummond 2002) as above, as follows:

- As the Committee heard, the duplication and coordination costs of all levels of government in Australia under the current arrangements probably amount to more than \$20 billion per annum. (Hawker 2003: vii)
- According to Mr Drummond of the Division of Management and Technology, University of Canberra, it has been estimated that the full extent of duplication and coordination costs under the current arrangements probably amount to more than \$20 billion per annum. (Hawker 2003: 140)

The \$20 billion estimate as above has attracted some degree of acknowledgement, support and endorsement (see Appendix 3E, especially the entries dated 25 November 2003 and shortly after).<sup>4</sup> At least two media reports, however, have criticised the manner in which this \$20 billion estimate has been presented and interpreted in some quarters. Skulley and Ludlow (2004: 61) report in the *Australian Financial Review* that:

Critics of the Hawker report have queried one of the headline findings, that duplication in the three levels of government costs \$20 billion a year. The source for the figure was given as the December 2002 issue of the Australian Journal of Public Administration, but critics say it was originally used as the estimated savings in fixed costs from abolishing state governments.

The critics reported in the Skulley-Ludlow article as above correctly recognise that the "\$20 billion a year" estimate (Drummond 2002) refers to "savings in fixed costs from abolishing state governments", but the estimate equivalently refers to savings achievable if the costs of bureaucratic duplication and coordination among Commonwealth, State and Territory governments were eliminated. The distinction the critics make is therefore largely illusory, but it would indeed be misleading to represent this \$20 billion a year figure as a financial benefit that could be achieved under Australia's current government structures in the absence of comprehensive reform. The *Canberra Times* (2003: 38) Editorial of 26 November 2003 criticises the emphasis given to the \$20 billion figure and makes the important distinction between cost-shifting among levels of government – amounting to an estimated \$1 billion a year – and the costs of bureaucratic duplication and coordination in Australia's current system of government – estimated at \$20 billion a year.

### ***Felmingham's "\$100 billion per annum" Estimate***

Dr Bruce Felmingham, a Reader in Economics at the University of Tasmania (with research interests in international finance, monetary economics, population economics, and related labour market issues, such as immigration and productivity, according to the University of Tasmania website), claimed as follows in a 9 July 2006 opinion piece, titled 'Turn Tasmania into a council',

which appeared in the *Sunday Tasmanian* newspaper (Felmingham 2006: 19; emphasis added here):<sup>5</sup>

... the financial relationship between the three tiers of government is a mess. We should start again with the structure of Australian government. For starters, *how about two and not three tiers? That would save Australian taxpayers \$100 billion per annum* as the duplication of functions and of cost is curtailed.

### **Further Estimates in the Billions or Millions of Dollars Per Annum**

A 1931 publication by F. A. Clark, titled *The Commonwealth under Business Management: Overthrow of Corrupted Democracy and Abolition of State Governments By Constitutional Means*, recommends that Australia should "abolish the State Parliaments" as "the cost of government is appalling" and "the waste in both production and distribution is alarming, and largely responsible for the high cost of living" (Clark 1931: 14-15). Further, according to Clark (1931: 18), "abolishing all State Parliaments and State Governors" can save "millions of pounds in our cost of government".

Among the 509 media reports presented in Appendix 3E, about 20 refer to the \$20 billion estimate mentioned in the 2003 Hawker report, and a further 60 or so report claims or estimates that Unification, or "abolishing State governments", or "abolishing the States", can generate Australia-wide financial benefits in the billions of dollars per year. The reports in Appendix 3E include the following claims and estimates, in addition to those already described above, that financial benefits in the billions of dollars per annum could be achieved through Unification:

- even by conservative estimations, we could save \$10 billion annually, if we replaced Australia's antiquated, wasteful and short-sighted tiers of government. (Klusman 30 October 1997: 12)
- let's have a Commonwealth referendum to abolish State Governments ... I conservatively estimate Australian taxpayers will be better off by some \$2 billion a year. (Holborow 12 March 1998: 20)
- Let's go further and have a referendum to abolish State Governments ... The billions of dollars saved could help pay off our ever-increasing foreign debt. (Cox 29 August 1999: 72)
- There are two main reasons to abolish State governments – firstly, to have the same laws across Australia, and second, to save the huge amount of money it takes to keep State politicians and their bureaucrats, while in office and afterwards ... this costs many billions of dollars every year. (Bradley 28 September 2000)
- while Mr Entsch and Cr Byrne agreed North Queensland suffered at the expense of the power brokers in the south-east, they did not agree adding extra states, politicians and bureaucracies was the answer. "I don't think it's practical," Mr Entsch said from Darwin yesterday. "My view is we should abolish all state governments. We should be expanding our local authorities and empowering them. "Understand if we have another state in FNQ, you've got to have another parliament, another premier, another whole lot of representatives and another bureaucracy to sustain it which would defeat the purpose of it because it would cost hundreds of millions of dollars to run it. "It doesn't matter how much we carve ourselves up, there's still only 20 million people." Mr Entsch said Australia would save "billions" and run more efficiently if departments currently under State control – health, education, transport and legal – were regulated to a national standard. (Robins 28 October 2000: 5)

- Replication of bureaucracies between state and commonwealth and between state and state, multiple sets of laws and compliance costs, perverse fiscal incentives, cost-shifting and buck-passing together waste billions of dollars a year – billions of dollars that might otherwise be spent by the private sector on more wealth creation, or by the public sector on more hospitals, schools, roads, public transport, police, legal aid, etcetera. (Putland 24 March 2001: 18)
- With the removal of the State governments there would be no 1200 border anomalies to contend with and the several billion dollars saved would be better spent on hospitals, than on premiers and other politicians who like things the way they are. (Bradley 1 November 2001)
- There are many billions of dollars to be redirected if a system of federal and local government were to be put in place. (Bradley 18 December 2002)
- it would be better if we follow Rodney Hall's advice, as suggested in his book Abolish the States, and save some billions. (Hajszan 18 June 2003: 14)
- Mark Latham's meeting with the premiers and territory leaders might not have been so chummy if he had discussed what every sensible Australian would like to see: a plan to phase out state governments to really save our country billions of dollars in useless administrative duplication. (Crane 17 July 2004: 40)
- the Howard government has a unique opportunity to ... initiate a process that could lead to a more sensible and effective federation, which doesn't squander the billions that are currently lost through squabbling, buck-passing and duplication, while providing at best a mediocre service to the Australian people. (Hewson 22 October 2004: 82)
- Getting rid of State governments could save billions of dollars, as well as making government more accountable. (Russell 6 November 2004: 83)
- Why do these state government allow billions of dollars to be wasted on duplicated bureaucracy instead of having more doctors and nurses? ... we do not need ... state governments. (Bradley 11 March 2005: 10)
- Bloodletting between Canberra and the states has been a constant since federation, creating a maze of differing laws and regulations and adding billions to the cost of providing essential services through duplication and horrendous inefficiencies. (Ansley 16 April 2005: B12)

Appendix 3E also include the following claims and estimates that benefits in the millions of dollars per annum could be achieved through Unification:

- why don't we go the whole hog and abolish all state governments? They are becoming more and more irrelevant and we would save millions of dollars, leading to lower taxes for everyone. (Bray 10 January 2000: 17)
- When Premier Bob Carr is looking at the money savings from council amalgamations, perhaps he could look at an amalgamation which would save very many millions of dollars. Why not amalgamate the states? (Anderson 9 February 2004: 12)
- COME on Mr Howard, don't stop at taking over hospitals, be really bold and embrace fundamental reform to our system of government. Removal of state and territory governments would free up huge amounts of money now spent in propping up duplicated state, territory and federal governments and bureaucracies – costing millions each year. Such a reform would go a long way towards improving our pension, education and health systems, and get the dead hand of bureaucracy off the backs of working Australians. (Malcolmson 11 March 2004: 14)
- Abolishing state governments would save the nation millions of dollars in administration costs, dramatically reduce the mis-spending of taxpayer moneys and enable focus on often way overdue local needs. (Bongarzoni 5 January 2005: 8)

The next four sections examine further claims and estimates which are not specifically applied to complete Unification proposals as such, but which nevertheless provide significant insights into the magnitude of the financial benefits possible through Unification.

## **Debnam's 2006 Claim that \$1 Billion Per Annum can be Saved in NSW Alone**

Liberal party politician Peter Debnam, as Leader of the NSW Opposition, made claims and estimates that were reported by Wade (2006: 8) in the *Sydney Morning Herald* on 13 February 2006:

[Mr Debnam's] broad strategy is to cut the 300,000-strong public service by 10 per cent, using the savings to stimulate economic activity and make the state more competitive by cutting business taxes. "NSW doesn't have a revenue problem; it has an expenditure problem," Mr Debnam says. "We need to rein in the cost of the bureaucracy." He claims that back office bureaucrats make up about 45 per cent of the public service, compared with about 20 per cent or less in private-sector enterprises. With costs outstripping state revenue, this "gargantuan" bureaucracy cannot be sustained, he says. If elected, the Coalition will freeze recruitment of back-office "desk jobs". Because about 10 per cent of the public sector retires each year, this would reduce the size of the public sector by almost 30,000 over two years and save nearly \$1 billion each year.

Debnam believes that savings amounting to \$1 billion per annum can be achieved by reducing "back office" bureaucracy in NSW alone, even with the continued operation of the NSW State government, hence suggesting that even greater financial benefits could be achieved if State bureaucracy was eliminated altogether through complete Unification. Further research would need to be carried out, however, to establish whether \$1 billion could really be saved without reducing the numbers of teachers, nurses, police officers and other genuinely "front-line" State government employees, if the NSW State government continued to exist. As Wade (2006: 8) recognises, "one question mark over the Coalition's savings plan is how it would distinguish between front-line and back office workers. Mr Debnam's claim that almost 50 per cent of state public servants fall in to the latter category is sure to be contested".

## **Estimates that Local Government Amalgamations Could Save About 20 Per Cent or \$2 Billion Per Annum**

Local government amalgamations and their claimed and demonstrated costs and benefits are considered in this chapter for two related reasons. Firstly, whereas proposals for New States, Regional Governments and Unification have never succeeded since Federation in 1901, advocates of local government amalgamations have been relatively very successful. Local government amalgamations have occurred quite commonly throughout Australia's post-Federation history and therefore provide real examples of government structure reform in Australia. Secondly, the insights provided by local government amalgamations are especially significant in any examination of Unification, because the Unification of State, Territory and

Commonwealth governments, into a single national government, can be viewed as an amalgamation process.

Several reports since the early 1990s have claimed that significant savings and financial benefits generally, in the order of 20%, could be achieved through local government amalgamations in Victoria and New South Wales. In a 1993 publication titled *Reforming Local Government in Victoria*, economist Des Moore (1993b) estimated that 440 million dollars per annum could be saved if the number of councils in Victoria was halved (Moore 1996: 63-67; Kiss 1997: 49-50; May 2003: 93-94). Moore (1993a: 14; see also Hallam 1994; Aulich 1999: 17) also observed that:

A recent Institute of Public Affairs analysis of local government in Victoria shows that there is the potential to save ratepayers about \$500-\$600 million a year by halving the number of councils and introducing other reforms. Larger councils, of course, have the potential to provide stronger local government.

Gettler (1995: 3) reported in the *Age* in March 1995 that the Victorian government aimed to save "between \$362 million and \$395 million a year" by reducing the number of Victorian councils from 210 to 78. In 1996, following the amalgamations which reduced the number of councils to 78, the Victorian government and Victorian Auditor General (VAG) announced that amalgamations had generated financial savings of 323 million dollars per annum (VAG 1996).<sup>6</sup>

A 1998 report titled *Reinventing Local Government in New South Wales*, prepared by KPMG for the NSW Division of the Property Council of Australia, estimated that a "very significant" amount of "\$845M out of a total expenditure of \$3,821", or "22% of the cost of Local Government of the State" (KPMG 1998: 97), could be saved if NSW's 177 councils amalgamated into just 20 larger councils, based on the boundaries of regional organisations of councils (ROCs). This same report also estimated that savings of approximately \$600 million per annum, or 16%, could be saved if NSW's 177 councils amalgamated into just 50 larger councils (KPMG 1998: 108). Stephen Soul, whose doctoral thesis explored the financial and general impacts of local government size (Soul 2000; see also 1996a: 41-43; 1996b: 8-10), has also estimated that ratepayer savings of \$500 million per annum could be achieved if NSW's 174 councils (in early 2001) were reduced in number to 51 councils through amalgamations (Cameron and Jamal 2001: 7).

Moore, the Institute of Public Affairs, the Victorian government, KPMG, Soul and others (see also Property Council of Australia 2000: 13) have claimed and estimated, as above, that financial benefits amounting to approximately 15% to 20% could be achieved in Victoria and



New South Wales if local government numbers were reduced by a factor of about two or three. So if this 15% to 20% range applied Australia-wide, then financial benefits in the order of \$3 billion to \$4 billion per annum might be possible through a comprehensive national program of local government amalgamations, at least \$2 billion per annum of which should remain available for further savings even following the comprehensive amalgamations that have taken place in Victoria and South Australia, noting that total local government spending in Australia was approximately \$14 billion in 1998-99, \$17 billion in 2001-02, and \$18 billion in 2004-05 (ABS Cat. 5512.0 1998-99; 2001-02; 2004-05).<sup>7</sup> Several studies, however, have suggested that gains from local government amalgamations have generally been approximately 5% or so, rather than the 15% to 20% figures claimed by amalgamation advocates as above. Allan (2003: 75), for example, compares claimed and realised savings achieved through local government amalgamations in Victoria and South Australia:<sup>8</sup>

*Victoria:* Here the government promised savings of 20 percent yet got only 8.5 percent which was mainly from compulsory competitive tendering, not mergers. ...

*South Australia:* Authorities promised a saving of 17.4 percent but realised only 2.3 percent. Rates escalated after a temporary freeze and not surprisingly the public became disenchanted with mergers.

May (2003: 95; see also Garsden 2004: 19) similarly observes that the 1998-99 *Local Government National Report* stated that "sustainable annual savings from the South Australian amalgamations would amount to between \$19 million and \$33 million", or "some three to five per cent of council expenditure". Garsden (2004: 19) notes that "the 1993 Queensland amalgamations were forecast to produce savings equivalent to 6.1% of the rate base". Kiss (1999: 119; see also Clennell 1999: 36) suggests that the costs of the Victorian amalgamations may even have matched or exceeded the benefits:

Comparing Victorian local government operational expenditures of \$2.452 billion in 1991-92 with those of \$2.859 billion for 1996-97, the latest figures available, and then adjusting the 1991-92 figure to 1997 values, gives a figure of \$2,746 billion. It would seem that the operating costs have increased [ABS, *Local Government Finance: Victoria*, 1993; 1998]. Rates have gone down considerably, a benefit to major property-owners in particular, but so has capital expenditure, which means that 'savings' have only been made by failing to maintain infrastructure. ... there are strong grounds for stating that local communities have not made any sustainable economic gains.

Dollery and others (see, for example, Byrnes and Dollery 2002: 391-414; Dollery and Crase 2004: 265-275; see also Kiss 1997: 45-73; 1999: 110-121; Vince 1997: 151-171; McNeill 2000: 12-14) have conducted comprehensive surveys of Australian and international research on local government amalgamations and scale economies and diseconomies in local government, and have robustly demonstrated that:

- *Economies of scale* arguments in favour of local government amalgamations have generally not been supported by empirical evidence and have been theoretically suspect.
- Theoretical and empirical insights from Australian and elsewhere generally offer very little support to claims that local governments serving larger populations are inherently superior or inferior, financially and generally, to those serving lesser populations. Moderately sized local governments, serving populations between 10,000 to 300,000 or so, have generally attracted more theoretical and empirical support than very small and very large local governments.
- Even if there *were* optimal sizes for local government areas in terms of population and land area, such optimal sizes would depend on the functions carried out by the local governments and on factors such as population density, so research findings based on local government systems in Europe and North America, for example, typically only provide limited insights into the likely costs and benefits of local government reform in Australia.
- Australian local governments, on average, are already large by international standards in terms of population, and very large indeed in terms of land area.
- It is extremely unlikely that vast financial and general benefits can be achieved through large scale local government amalgamation programs. So claims and estimates of financial benefits exceeding 10% or so probably should be viewed with considerable caution.

Estimates of the financial benefits possible through local government amalgamations, and associated research and debates, offer this current study several significant lessons. Firstly, post-reform estimates of the financial benefits of local government amalgamations in Australia have generally been significantly more modest than those promoted prior to amalgamations. Secondly, if credible analysts believe gains of 20% or about \$2 billion per annum (bpa) Australia-wide are possible in a local government sector which accounts for just seven percent of total expenditure across all three levels of government, then such analysts and other stakeholders are likely to find it relatively easy to accept that gains in the order of \$10 bpa to \$30 bpa or so could be achieved if Commonwealth, State and Territory governments, accounting for 93% of total government expenditure, were carefully rationalised. Total public sector expenditure across all levels of government was \$311 billion in 2001-02 and \$367 billion in 2004-05 (ABS Cat. 5512.0 2001-02; 2004-05), so \$10 billion represents just three per cent of these recent total public sector expenditure figures, and \$30 billion just eight to nine per cent.

Appendix 3G examines the local government amalgamation debate in detail and includes further descriptions of the KPMG estimates summarised above, a detailed critique of these KPMG estimates (McNeill 2000: 12-14), and a compilation of extracts from the Australian and international literatures on the financial costs and benefits of local government amalgamations and related considerations. Appendices 2D and 2E provide further insights into the local

government amalgamation debate through their assessments of settlement patterns, local governments, and scales suitable for sub-national governments in Australia.

### **Costs Associated with State and Territory Borders**

A significant body of research has confirmed that national and sub-national borders significantly impede trade, and economic and social exchange generally. Many border effect studies have focused on flows of trade and populations across political borders, but some have attempted to quantify border effects in terms of tariff equivalence (see, for example, Wei 1996, Anderson and van Wincoop 2001; Wacziarg, Spolaore and Alesina 2003). Most border effect studies have focused on international borders, but several have specifically examined sub-national borders such as Australia's State and Territory borders (see especially Wolf 1997; 2000; Chen 2004; Millimet and Osang 2006). Appendix 3H presents a compilation of significant literature extracts on border effects, and Appendix 3I presents a similar compilation of extracts from media reports and other literature on border anomalies in Australia and closely related issues.

Several papers have emphasised the significant costs, risks and hazards associated with life-and-death gravity emergency response procedures which vary across State and Territory borders. Gough Whitlam (1983: 40-42), for example, famously lamented the incompatibility of fire hose connections which undermined inter-State assistance efforts in response to bushfires. The use of different radio frequencies across the NSW-ACT border arose as a significant impediment in the emergency response to the bushfires which killed four people in the ACT in January 2003 (McLeod 2003: 75; Nairn 2003: 183, 237-239; Ellis, Kanowski and Whelan 2004: 137-140). Nearly three years before the ACT bushfires, Brian Sharp, the Mayor of Murray Shire and chairman of the Murray Regional Organisation of Councils, expressed serious concerns that "Victorian firefighters ... use different radio frequencies" to those used in NSW (Borchard 2000: 9). The House of Representatives Select Committee into the Recent Australian Bushfires, chaired by Federal Liberal MP Gary Nairn (2003: 287), concluded that "the current lack of national standards in key areas continues to restrict the effectiveness of fire suppression efforts in this country", and that "a parallel can be drawn between the current state of bushfire management and the inefficiencies that prevailed before the introduction of a national rail gauge", but emphasises that "telling as this parallel may be, it does not reflect the far more tragic consequences of inefficiencies in bushfire management that may arise in the loss of life, property and heritage". Appendix 3J presents a compilation of extracts from media reports and

other literature on the costs associated with border anomalies affecting the prevention and response to bushfires.

Nocera and Garner (1999: 598-602) examined the different ambulance triage systems employed by Australia's States and Territories and the impact of State and Territory borders on ambulance and medical responses to mass casualty incidents (MCIs) in view of the inconsistent ambulance triage procedures in place. They observed that "all eight State and Territory ambulance services use a numerical and colour coded system to indicate triage priority during an MCI" and that "there were five different triage tag designs for triage documentation, six different triage taxonomies and five different triage methodologies with minimal homology between the different triage systems and the National Triage Scale used in hospitals" (Nocera and Garner 1999: 598), and hence conclude that "the multiplicity of state ambulance triage taxonomies severely hinders mutual aid arrangements across State and Territory borders" (Nocera and Garner 1999: 600).

### ***Three Million Australians Living Within 100 Kilometres of a State or Territory Border***

To emphasise the scale of the ambulance triage problem briefly described above, Nocera and Garner (1999: 600; see also *Daily Telegraph* 1999: 17) refer to Australian Bureau of Statistics 1996 Census data on the numbers of people living within 100 km of one or more State and Territory borders:

Approximately 3.31 million Australians live within 100 km of a State or Territory border where ambulance units crossing the border in response to an MCI will potentially result in two completely different triage systems being used at the site of the MCI. In addition, 88 370 Australians live within 100 km of the junction of three State borders where none of the state ambulance services uses the same triage system.

Because Nocera and Garner refer to borders crossable by ambulances, the 3.31 million and 88,370 figures as above could only apply to the seven mainland States and Territories, the population of which totalled 17,429,441 according to the 1996 Census. So if 3.31 million Australians lived within 100 kilometres of a State or Territory border in 1996, then that represented 19.0% of Australia's 1996 mainland population, and 18.5% of Australia's total population (17,892,423). The conurbation extending from the NSW-QLD border through the Gold Coast and up to Brisbane would account for more than half of this 3.31 million figure, and the ACT and its surrounds would account for another 400,000 or so people, but there are still very significant border populations which are totally separate from the eight State and Territory capital cities. Over 100,000 people live within a small radius of Albury-Wodonga, and many

towns are located on the NSW and VIC sides of the Murray river westwards to the South Australian border, including the larger townships of Corowa-Wahgunya, Yarrawonga-Mulwala, Cobram-Barooga, Echuca-Moama, Swan Hill and Mildura. According to the 2001 Census (ABS Cat. 2016.2 2003: 62), Mildura (population 27,931) was the seventh largest urban centre in Victoria by population, Wodonga the eighth (27,659), Echuca the 20th (10,926), Swan Hill the 24th (9,738) Cobram the 44th (4,542), and Yarrawonga the 48th (4,042). The three State junction between South Australia, Victoria and New South Wales accounts for the majority of the 88,370 people quoted above from Garner and Nocera, and includes the township of Wentworth in NSW (with a 2001 Census population of 1,433), and in SA: Renmark (population 4,448), Berri (4,213), Loxton (3,350), Baramba (1,937) and Waikerie (1,764).

Table 3-1 below lists Australian urban centres and towns which cross State or Territory (STU) borders or which extend to within 10 km of an STU border, along with their populations according to the ABS 2001 Census, and shows that the sixth and seventh largest urban centres in Australia (Gold Coast-Tweed and Canberra-Queanbeyan) are both border cities.<sup>9</sup> So after the five mainland capital cities, the two largest metropolitan areas in Australia are located in border regions.

The 21 settlements listed in Table 3-1, with a combined population of approximately 900,000 (according to the 2001 Census), made up nearly 5% of Australia's total population, but over 14% of the population located on the mainland but outside the five mainland State capital cities. And these 21 settlements are merely those which actually cross STU borders or come to within 10 kilometres of an STU border. A significant additional population is located within 20 kilometres of STU borders, including Mount Gambier in SA which is located approximately 15 km from the Victorian border and which had a population of 22,656 according to the 2001 Census.

**Table 3-1: Australian Urban Centres and Towns which Cross STU Borders or Extend to Within 10 Kilometres of Such a Border**

Settlement	Population	STU(s)	STU(s) crossed or nearby	Rank Among all Australian Urban Centres	Percentage of Australia's Total Population	Cumulative Population	Cumulative Population as a Percentage of Australia's Total Population	Percentage of Mainland Non-capital Population	Cumulative Population as a Percentage of Mainland Non-capital Population
Gold Coast-Tweed Heads	406,619	QLD, NSW	QLD, NSW	6	2.143	406,619	2.14	6.5	6.5
Canberra-Queanbeyan	336,805	ACT, NSW	ACT, NSW	7	1.775	743,424	3.92	5.4	11.8
Albury-Wodonga	69,664	NSW, VIC	NSW, VIC	18	0.367	813,088	4.29	1.1	12.9
Mildura	27,931	VIC	VIC, NSW	38	0.147	841,019	4.43	0.44	13.4
Echuca-Moama	13,744	VIC, NSW	VIC, NSW	76	0.0724	854,763	4.51	0.22	13.6
Swan Hill	9,738	VIC	VIC, NSW	110	0.0513	864,501	4.56	0.15	13.7
Corowa-Wahgunyah	5,907	NSW, VIC	NSW, VIC	169	0.0311	870,408	4.59	0.094	13.8
Yarrawonga-Mulwala	5,697	VIC, NSW	VIC, NSW	175	0.0300	876,105	4.62	0.091	13.9
Goondiwindi	5,475	QLD	QLD, NSW	183	0.0289	881,580	4.65	0.087	14.0
Cobram	4,542	VIC	VIC, NSW	> 200 (44 in VIC)	0.0239	886,122	4.67	0.072	14.1
Stanthorpe	4,166	QLD	QLD, NSW	> 200 (42 in QLD)	0.0220	890,288	4.69	0.066	14.1
Howlong	1,949	NSW	NSW, VIC	> 400 (154 in NSW)	0.0103	892,237	4.70	0.031	14.2
Barham-Koondrook	1,852	NSW, VIC	NSW, VIC	> 400	0.0098	894,089	4.71	0.029	14.2
Rutherglen	1,838	VIC	VIC, NSW	> 400 (92 in VIC)	0.0097	895,927	4.72	0.029	14.2
Merbein	1,822	VIC	VIC, NSW	> 400 (93 in VIC)	0.0096	897,749	4.73	0.029	14.3
Tocumwal	1,525	NSW	NSW, VIC	> 400 (187 in NSW)	0.0080	899,274	4.74	0.024	14.3
Wentworth	1,433	NSW	NSW, VIC	> 400 (197 in NSW)	0.0076	900,707	4.75	0.023	14.3
Barooga	1,029	NSW	NSW, VIC	> 400 (242 in NSW)	0.0054	901,736	4.75	0.016	14.3
Kilarney	831	QLD	QLD, NSW	> 700 (176 in QLD)	0.0044	902,567	4.76	0.013	14.3
Texas	700	QLD	QLD, NSW	> 700 (197 in QLD)	0.0037	903,267	4.76	0.011	14.4
Bogabilla	666	NSW	NSW, QLD	> 700 (314 in NSW)	0.0035	903,933	4.76	0.011	14.4
Pinnaroo	594	SA	SA, VIC	> 700 (90 in SA)	0.0031	904,527	4.77	0.009	14.4

Sources: ABS (2003) Catalogues 2016.0 to 2016.7, *Selected Characteristics for Urban Centres, 2001*; Browne, A. (2001), 'Explore Australia 2002: The Complete Touring Companion', 20th edition, Penguin Books Australia, Melbourne, 2001.

***Estimates Based on the Border Anomalies Study by Shaw & Associates (1997)***

Appendix 3I includes extracts from an extremely significant 1997 report, titled *Creating the Perfect Border: Border Anomalies Study*, prepared by Shaw & Associates for the Murray Regional Development Board to assess border anomalies and the costs they impose on communities near the Murray River border between Victoria and NSW. Whilst many studies have dealt with border anomalies in varying levels of detail, this Shaw & Associates study stands out as an especially comprehensive analysis which has offered considerable assistance to this current study by providing actual estimates of border costs that can be used, as below, to estimate the Australia-wide cost of border anomalies in Australia.

Table 3-2 below presents estimates which Shaw & Associates (1997: Attachment 1) develop for 94 businesses which provided quantified responses in dollar terms to the survey question: "Give a broad "ballpark" estimate of the total extra cost your organisation incurs as a result of operating under border anomalies". These 94 businesses span across 16 of the 17 ANZSIC (Australian and New Zealand Standard Industrial Classification) categories (ABS Cat. 1292.0 1993).

**Table 3-2: Shaw & Associates (1997) Border Anomaly Cost Estimates by Industry**

<b>'Ballpark' Estimated Costs By Industry</b>				
<b>INDUSTRY</b>	<b>Description</b>	<b>Nos. Respondents</b>	<b>EST COST</b>	<b>Cost/business</b>
A	Agriculture, forestry	3	\$5900	\$1967
B	Mining	1	\$30000	\$30000
C	Manufacturing	10	\$100000	\$10000
D	Electricity, gas & water	4	\$126500	\$31625
E	Construction	6	\$89000	\$14833
F	Wholesale trade	5	\$168600	\$33720
G	Retail trade	7	\$162650	\$23236
H	Accommodation, Cafes etc	2	\$2300	\$1150
I	Transport & storage	5	\$90000	\$18000
K	Finance & Insurance	8	\$53500	\$6688
L	Property & Bus. services	30	\$315750	\$10525
M	Government	5	\$79000	\$15800
N	Education	1	\$10000	\$10000
O	Health & Comm. Services	4	\$1255450	\$313863
P	Cultural & Rec. Seviles	1	\$40000	\$40000
Q	Personal & other Services	2	\$4500	\$2250
<b>TOTAL</b>		<b>94</b>	<b>\$2533150</b>	<b>\$26948</b>

Note: Shaw & Associates received no quantified estimates from any business in the *Communication* ANZSIC category for which there is no entry here.

Table 3-3 extends on the figures shown in Table 3-2 above to include: (1) the Australia-wide total number of *operating businesses* in the respective ANZSIC categories, based on data from the ABS publication *Business Operations and Industry Performance 1996-97* (Cat. 8140.0 1999); (2) estimates of the Australia-wide total number of operating businesses in each ANZSIC category which are located within 100 km of an STU border, based on the estimate, as above, that 18.5% of the Australian population was located within 100 km of a State or Territory border in 1996; and (3) estimates (labelled E1) of the Australia-wide costs attributed to border anomalies for each ANZSIC category, based on the assumption that all operating businesses located within 100 km of an STU border would experience costs due to border anomalies equal to those established by Shaw & Associates as in Table 3-2.

**Table 3-3: Estimated Costs of Border Anomalies Based on Shaw & Associates (1997)  
Costs Per Business Estimates**

Industry	Description	R = Nos. Respondents	Estimated Cost	C = Cost per business	T = Australia- wide Total Number of Businesses in 1996-97 (ABS Cat. 8140.0)	B = Estimated Australia-wide Number of Businesses Located Within 100 km of a State or Territory Border in 1996-97 (B = 18.5% of T)	E1 = Estimated Australia- wide Costs Due to Border Anomalies (E1 = B ÷ R × C)  (\$m)
A	Agriculture, Forestry and Fisheries	3	\$5,900	\$1,967	120,125	22,222	44
B	Mining	1	\$30,000	\$30,000	2,079	385	12
C	Manufacturing	10	\$100,000	\$10,000	54,880	10,152	102
D	Electricity, Gas & Water	4	\$126,500	\$31,625	520	96	3
E	Construction	6	\$89,000	\$14,833	95,127	17,598	261
F	Wholesale Trade	5	\$168,600	\$33,720	46,988	8,693	293
G	Retail Trade	7	\$162,650	\$23,236	115,739	21,411	498
H	Accommodation, Cafes and Restaurants	2	\$2,300	\$1,150	34,833	6,444	7
I	Transport and Storage	5	\$90,000	\$18,000	31,314	5,793	104
J	Communication Services	0	n/a	n/a	3,249	601	
K	Finance and Insurance	8	\$53,500	\$6,688	22,731	4,205	28
L	Property and Business Services	30	\$315,750	\$10,525	134,540	24,889	262
M	Government Administration and Defence	5	\$79,000	\$15,800	5,804	1,074	17
N	Education	1	\$10,000	\$10,000	9,601	1,776	18
O	Health and Community Services	4	\$1,255,450	\$313,863	48,875	9,042	2,838
P	Cultural and Recreational Services	1	\$40,000	\$40,000	18,958	3,507	140
Q	Personal and Other Services	2	\$4,500	\$2,250	38,699	7,159	16
<b>Totals</b>		<b>94</b>	<b>\$2,533,150</b>	<b>\$26,948</b>	<b>784,062</b>	<b>145,047</b>	<b>4,642</b>

The figure at the bottom right corner of Table 3-3 provides the estimate that the Australia-wide cost of border anomalies across all industries in 1996-97 was approximately \$4,600 million, or



\$4.6 billion. The health and community services industry accounts for approximately 60% of this total figure (\$2.8 billion), and estimates exceeding \$100 million also arise for the retail trade (\$498m), wholesale trade (\$293), property and business services (\$262m), construction (\$261m), transport and storage (\$104m), and manufacturing (\$102m) industries. These estimates are of course highly sensitive to the assumptions they are based on and the data used to represent the total number of businesses. Table 3-4 repeats the E1 estimates shown in the rightmost column of Table 3-3 and also provides four corresponding estimates (labelled E2 through E5) based on more recent ABS business counts in the form of the *all businesses* and *employing businesses* counts presented in each of the publications *Small Business in Australia 2001* (ABS Cat. 1321.0) and *Australian Business Register – A Snapshot 2000* (ABS Cat. 1369.0). It is seen that the cost estimates based on the *all businesses* counts are significantly larger than those based on the counts for *employing businesses* only, and that the estimates based on the employing businesses counts very closely resemble those obtained in Table 3-3. Two further estimates columns are also provided in Table 3-4. The estimates labelled E6 are the minimums of the corresponding estimates E1 through E5, and those labelled E7 are simply the minimum E6 estimates divided by 2 and rounded down to the nearest whole number (in \$m).

Further research would need to be carried out to test the assumptions which these estimates are based on, and more reliable estimates could of course be obtained if larger sample sizes were employed, but it is assumed tentatively that the estimates E1 through E5 shown in Table 3-4 would probably over-estimate the Australia-wide costs of border anomalies, especially the estimates E2 and E4 based on the *all businesses* counts, and that taking minimum estimates (for E6) and then halving (for E7) may provide more realistic estimates.

According to the tentatively preferred minimum and halved E7 estimates, border-costs are approximately \$1.4 billion per annum in health and community services, and in excess of \$100m per annum in four other industries: retail trade (\$212m), property and business services (\$122m), wholesale trade (\$118m) and construction (\$110m).

**Table 3-4: Estimated Costs of Border Anomalies Based on Shaw & Associates (1997)  
Cost Per Business Estimates**

Industry	Number of Businesses	E1 = Estimate Based on Operating Businesses as in ABS Cat. 8140.0, 1996-97 (\$m)	E2 = Estimate Based on All Businesses as in ABS Cat. 1321.0, 2000-01 (\$m)	E3 = Estimate Based on Employing Businesses as in ABS Cat. 1321.0, 2000-01 (\$m)	E4 = Estimate Based on All Businesses as in ABS Cat. 1369.0, October 2000 (\$m)	E5 = Estimate Based on Employing Businesses as in ABS Cat. 1369.0, October 2000 (\$m)	E6 = Minimum of Estimates E1 through E5 (\$m)	E7 = Tentative Best Estimate = (E6 ÷ 2) Rounded Down (\$m)
Agriculture, Forestry and Fisheries	3	44	108	27	108	27	27	13
Mining	1	12	62	14	62	14	12	5
Manufacturing	10	102	176	93	279	107	93	46
Electricity, Gas & Water	4	3	36	3	36	3	3	1
Construction	6	261	638	221	1,090	245	221	110
Wholesale Trade	5	293	390	278	533	236	236	118
Retail Trade	7	498	725	425	1,055	446	425	212
Accommodation, Cafes and Restaurants	2	7	8	6	15	6	6	3
Transport and Storage	5	104	243	93	449	100	93	46
Communication Services	0	0	0	0	0	0	0	0
Finance and Insurance	8	28	32	21	412	41	21	10
Property and Business Services	30	262	441	245	1,268	273	245	122
Government Administration and Defence	5	17	31	9	31	9	9	4
Education	1	18	47	16	97	20	16	8
Health and Community Services	4	2,838	4,662	2,752	7,571	2,750	2,750	1,374
Cultural and Recreational Services	1	140	306	109	892	125	109	54
Personal and Other Services	2	16	30	13	146	13	13	6
<b>Totals</b>	<b>94</b>	<b>4,642</b>	<b>7,937</b>	<b>4,327</b>	<b>14,045</b>	<b>4,416</b>	<b>4,279</b>	<b>2,132</b>

The estimates shown in Tables 3-3 and 3-4 essentially assume that all businesses based within 100 km of a border will experience the same costs as those which responded to the Shaw & Associates survey, but there are several factors which suggest that such an assumption will over-estimate costs, such as the following:

- Shaw & Associates (1997: 4) acknowledge that "the sample of businesses selected to receive [their] survey was not random"; rather, "it was deliberately skewed towards industries and organisations that were considered more likely than others to experience some impact from border anomalies". Furthermore, the Shaw & Associates survey questions were sent to 981 businesses, of which 259 responded, and 94 quantified border cost estimates as in Table 3-2 above (Shaw & Associates 1997: 1-6, Attachment 1). Shaw & Associates (1997: 5) also observed that "just over half (55%) [of the 259] respondents believe that their business or organisation incurs extra costs from border anomalies", but "91% of respondents felt that the

cost impact is less than 5% of total costs", 5% "indicated their costs were between 5% and 10%, 1% said they were between 10% and 20% and 2% [6 businesses among the 259 respondents] believed the cost impact of border anomalies to be over 20% of their total costs".

- Among all businesses located within 100 km of an STU border, it seems intuitively likely that businesses located very near such a border (within 20 km, for example) will typically experience significantly greater border related costs than those located further away from the border (more than 50 km away, for example).
- The 18.5% percentage figure used to obtain the border cost estimates shown in Tables 3-3 and 3-4 are based on the 3.31 million figure cited by Nocera and Garner (1999: 600), which includes much of the southern section of the Brisbane metropolitan area – much of which may experience limited direct border costs. Countering this, however, is the fact that the populations in Table 3-1 – which only include recognised urban centres and townships – total almost one million.

Whilst the lower E7 estimates are tentatively preferred over the other estimates in Tables 3-3 and 3-4, based on acknowledgements such as those above, it is also acknowledged that economy-wide border cost impacts might significantly exceed those captured in the Shaw & Associates survey responses, and that larger cost estimates would probably arise if the costs of foregone business opportunities could be quantified. Many border area businesses which believe border costs are minimal might be avoiding border-related costs because they are simply resigned to operation on just one side of the border, because of perceived costs, risks and other impediments to cross-border operation. Such businesses may hence miss potentially lucrative opportunities to trade across borders. Chapter 5 further assesses the economy-wide cost impacts of separate State and Territory regulatory and business environments, and associated economic distortions and frictions, all of which are likely to be most pronounced in border regions.

## **Financial Benefits of Commonwealth-State Vertical Integration**

An initial effort (Drummond 2002: 49-51) claimed that financial benefits in the order of approximately \$10 billion per annum (bpa) could be achieved in Australia's public sector alone if Commonwealth and State-Territory levels of government vertically integrated to form a single national government, over and above the benefits possible at the State-Territory level alone if State and Territory governments horizontally integrated to form a single Australia-wide State-Territory type government. This \$10 bpa estimate comprised vertical duplication cost savings of approximately \$2 bpa and coordination cost savings of approximately \$8 bpa.

This section now examines several further claims and estimates which provide general guides on the magnitude of the financial benefits possible through Commonwealth-State vertical integration, beginning with estimates presented to a Victorian Parliamentary inquiry in the late 1990s.

### ***Victoria's 1998 Inquiry into Commonwealth-State Overlap and Duplication***

In 1996, the Victorian Parliament's Federal-State Relations Committee (FSRC 1998) began an inquiry into Commonwealth-State Overlap and Duplication. According to its terms of reference, the FSRC (1998: xv) was to "inquire into, consider and report to Parliament on overlap and duplication of roles and responsibilities between the Commonwealth and the State, and areas of responsibility for which the States should have an enhanced role for the benefit of the Federation". So this inquiry's examination of overlap and duplication explicitly assumed the continued existence of Australia's eight States and Territories.

The FSRC (1998: 12; see also Trebeck and Cutbush 1996: 221-240) notes that "in its consultation undertaken for the Leaders' Forum, ACIL estimated the cost of overlap and duplication in Australia ... to be of the order of one-half to one percent of total program expenditure", where overlap and duplication is "measured in terms of additional administrative and overhead costs where two tiers of government are involved in service delivery and associated policy development". It is hence estimated that "the cost to government of overlap and duplication in Australia is something like \$1 billion annually", given that "total Commonwealth expenditure in 1998-99 is forecast to be \$141.6 billion" (FSRC 1998: 12). But, again, this \$1 bpa estimate assumes the continuance of Australia's current federal structure.

### ***Further Insights into the Gains Possible Through Vertical Integration***

Fletcher (1991: 13) observes that "the states tend to view government duplication and overlap as synonymous with commonwealth government activity", and that "commonwealth government proposals for reform appear to be aimed at reducing duplication and overlap by consolidating commonwealth authority". Day (2001: 15) later observes, similarly, that "throughout the last century, it has been an ongoing struggle for the national government to assert its supremacy over the states", and that "in effect, the constitution had simply added another layer of government to the existing colonies".

According to a 1990 estimate, reported by Fray (1993: 19) in August 1993, it costs the Commonwealth government alone "more than \$30 million a year" to administer Commonwealth specific purpose payments (SPPs) to the States and Territories, an amount which economist Fred Argy (cited in Fray 1993: 19) described as "just the tip of the iceberg".

Moore (1993a: 14), writing in the *Melbourne Age* as a Senior Fellow at the Institute of Public Affairs, claims that "existing duplication between the Commonwealth and state governments is considerable", and observes further that "Institute research showed scope to cut Commonwealth spending by \$9 billion, for instance". Farr et al. (1996: 4) similarly report their findings that the Federal Government is a "massively and expensively overmanaged" operation costing \$124 billion-a-year, and that "buried in its myriad layers ... are areas where billions of dollars are wasted".<sup>10</sup> It is claimed that "the Federal Government could save \$1 billion and improve service by scrapping duplication of State Government activities", and that rationalisation at senior bureaucratic levels could generate further benefits in the order of \$1 billion per annum (Farr et al. 1996: 5). Former Labor Finance Minister Peter Walsh (cited by Farr et al. 1996: 5) similarly estimates that the Federal government's "administration costs ... could be hacked back by \$2 billion". Literature extracts in Appendix 3K provide further insights into the magnitude of the financial benefits possible if Australia's Commonwealth and State-Territory level governments vertically integrated into a single national government in the process of Unification.

## **Conclusion**

Unification advocates from Sir George Dibbs in the 1890s and John B. Steel shortly before World War I, to Jim Snow, Rodney Hall and others since the 1990s, have claimed that Unification could achieve financial benefits in the order of five to ten per cent. Arthur Griffith in 1927 claimed that Unification could reduce the cost of government by about one-third, and Peter Consandine in 1991 claimed that his Unification plan could achieve "better government at less than half the cost", but these extreme claims, like Ken Thomas' claim that his Regional Government model could halve the cost of government, as described in Chapter 2, could not realistically apply to the whole of Australia's public sector, though they may well apply to some fractions of the public sector.

It has been estimated that local government amalgamations could achieve gains in the order of 20% or \$2 billion per annum Australia-wide, across a local government sector which accounts for just seven percent of total expenditure across all three levels of government, and whilst such

gains have been challenged, they indicate that claims that Unification can achieve public sector benefits in the order of \$10 billion to \$30 billion per annum, or three to nine per cent of total public sector expenditure across all levels of government (based on 2001-02 and 2004-05 figures), are relatively modest.

Significant costs associated with State and Territory borders and border anomalies have been identified, possibly amounting to over \$1 billion per annum in the health and community services sector alone. Evidence has also been considered which indicates that gains in the order of at least several billion dollars per annum could be achieved if Australia's Commonwealth and State-Territory levels integrated in the process of Unification.

Most recent claims and estimates in the order of \$10 billion per annum or more, as described above, appear to derive ultimately from the Snow estimates from the early 90s, and the estimates developed subsequently in collaborations involving Snow and Hall (Drummond 1995; 1998; 2002). These Snow-Hall-Drummond estimates have attracted a degree of acknowledgement and endorsement, from reform advocates, politicians from various political parties, the media, and other stakeholders. And whilst such acknowledgement and support does not amount to independent confirmation of technical accuracy, it is clear nevertheless that these estimates have aligned at least acceptably well with intuitive expectations. Chapters 10 and 12 attempt to update and improve on these earlier estimates of the financial benefits of Unification.