

## Why change the federation?

The true  
confessions  
of a lapsed  
constitutional lawyer

# Why change the federation?

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## **Efficiency & clarity**

- “Governments sovereign in their own sphere”
- Reduce overlap and inefficiency
- Clarify accountability

## **Accountability & responsibility**

- Reform institutions to democratise intergovernmental decisions
- Reduce vertical fiscal imbalance to drive accountability

## **Tax reform**

- Shift to economically more efficient taxes with federal implications (GST)

## **Sharing the cost of reform**

- Use inter-governmental agreements and incentives to share political and financial costs (Hilmer)

# Which changes are plausible?

	Payoff	Political doability
<b>Efficiency &amp; clarity</b>	<ul style="list-style-type: none"> <li>Efficiency gains may be small given scale diseconomies</li> <li>Accountabilities may not “stick”</li> </ul>	<ul style="list-style-type: none"> <li>Hard to sell as an abstract idea without concrete improvements</li> <li>Most interest groups will oppose</li> </ul>
<b>Accountability &amp; responsibility</b>	<ul style="list-style-type: none"> <li>More obvious in specific areas (e.g. energy)</li> <li>Institutional argument, so hard to prove</li> </ul>	<ul style="list-style-type: none"> <li>Tough to sell principles without specific examples of poor substantive outcomes</li> <li>Public unexcited by VFI</li> </ul>
<b>Tax reform</b>	<ul style="list-style-type: none"> <li>Big economic lever</li> <li>Federal impacts a by-product</li> </ul>	<ul style="list-style-type: none"> <li>Tax reform always difficult</li> <li>Federalism makes reform <i>harder</i></li> </ul>
<b>Sharing the cost of reform</b>	<ul style="list-style-type: none"> <li>Property tax / stamp duty swap</li> <li>Zoning / planning reform</li> </ul>	<ul style="list-style-type: none"> <li>Intergov agreement signals quality reform</li> <li>Agreements limit political mileage for opposition</li> </ul>

??

X

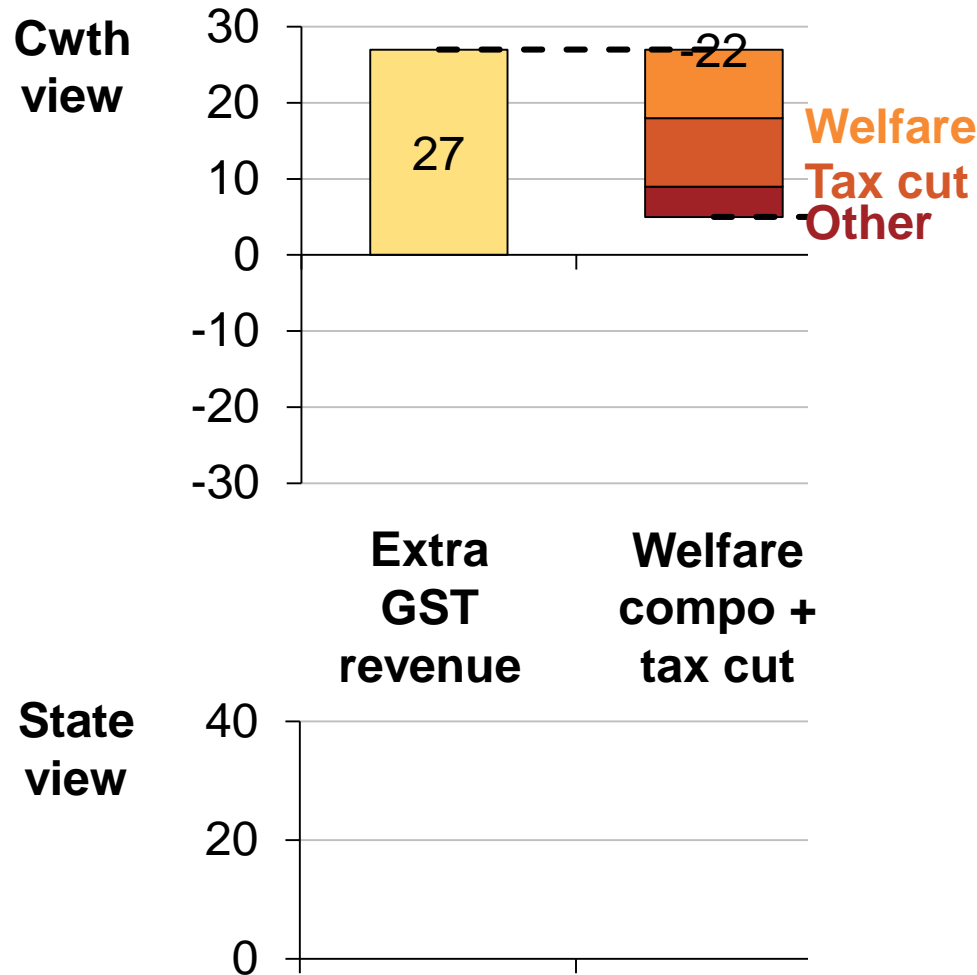
✓ Housing  
? VET

?

X

# What might GST reform look like?

Budgetary changes, 2014-15, \$billion/yr



Why would GST be seen as “fair” if bottom 1/3 go backwards relative to others?

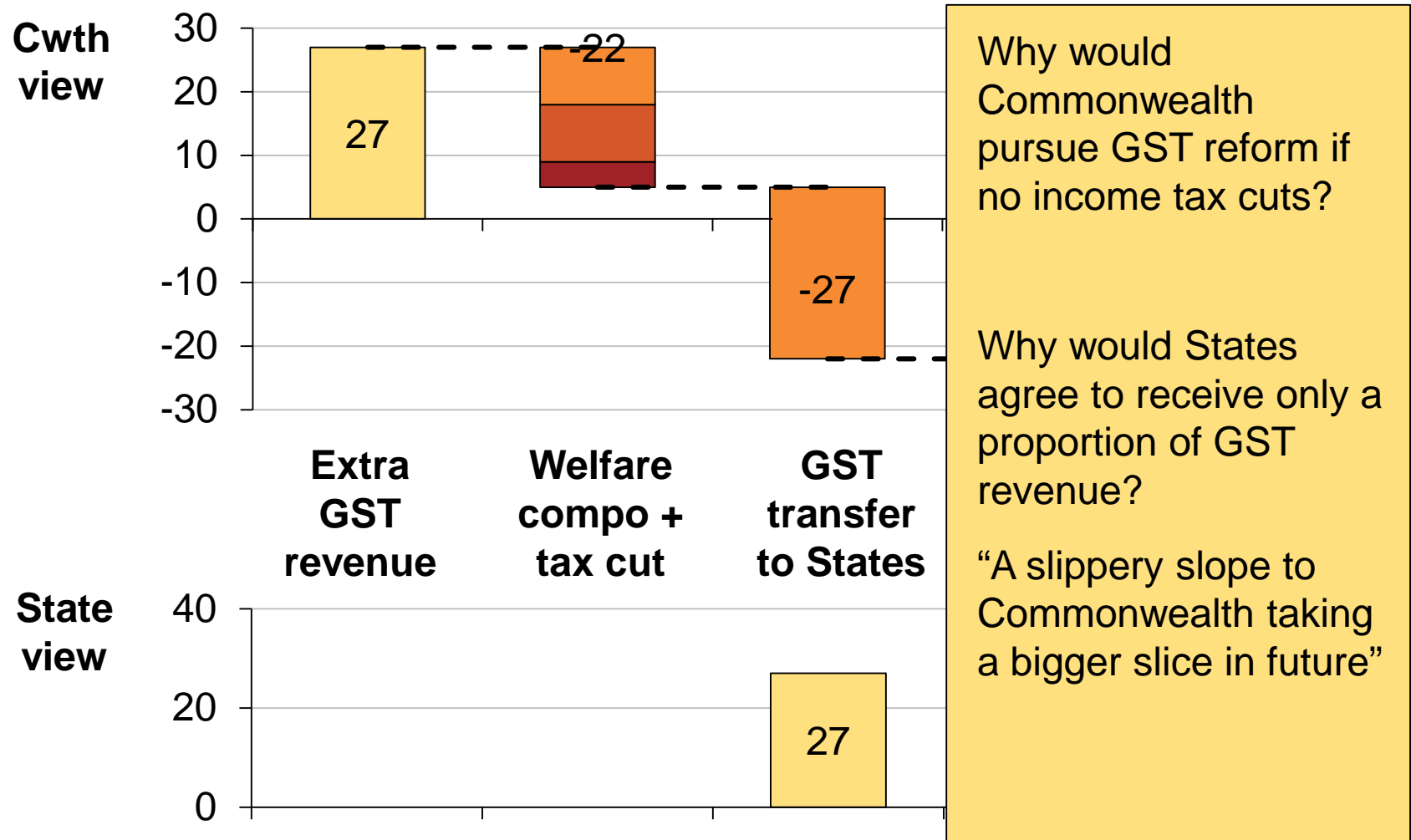
Welfare package will need to over-compensate as targeting imperfect

Tax cut <\$80k leaves most in bottom half better off

Although the bottom half would be better off *on average*, some *individuals* would not

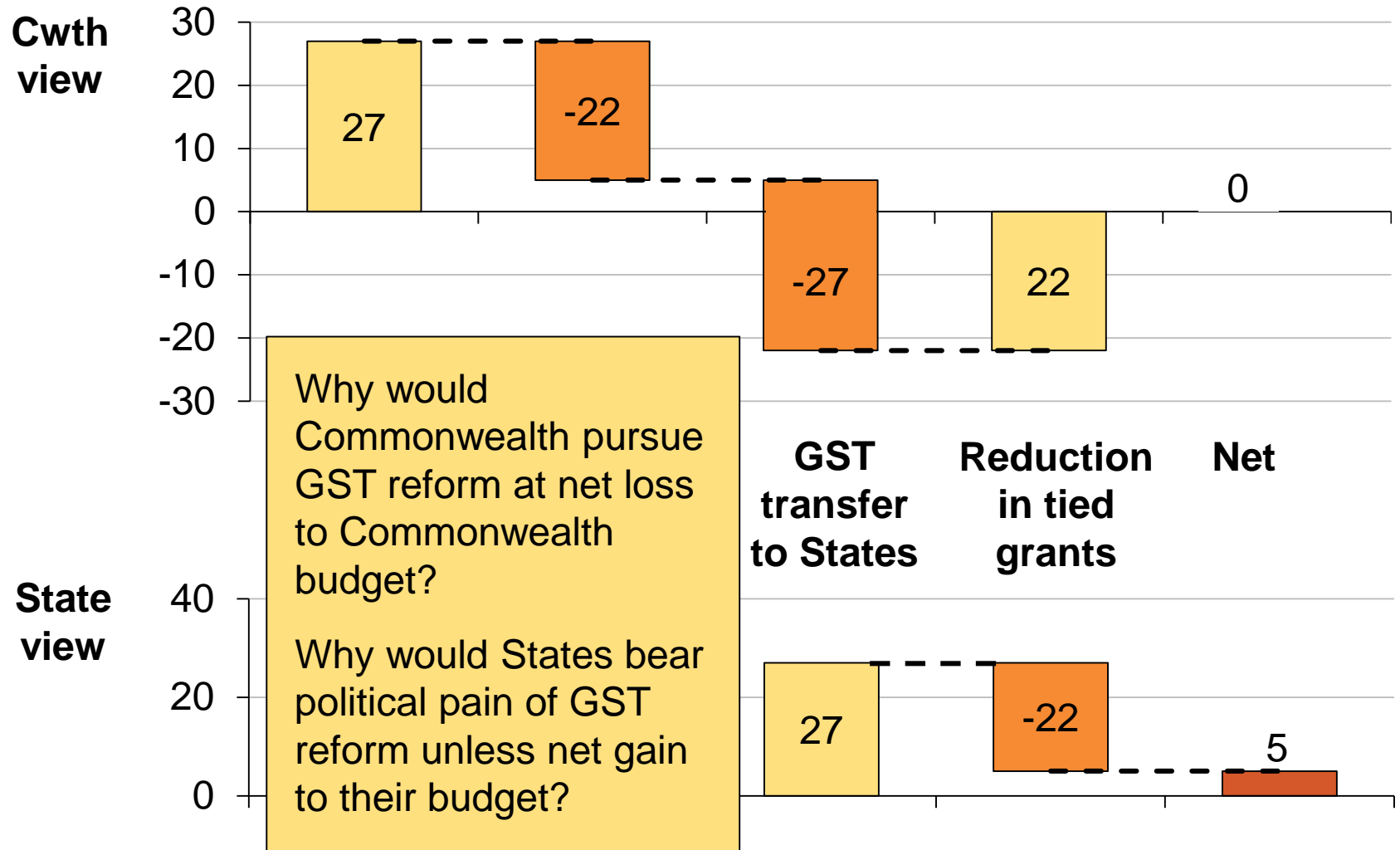
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Budgetary changes, 2014-15, \$billion/yr



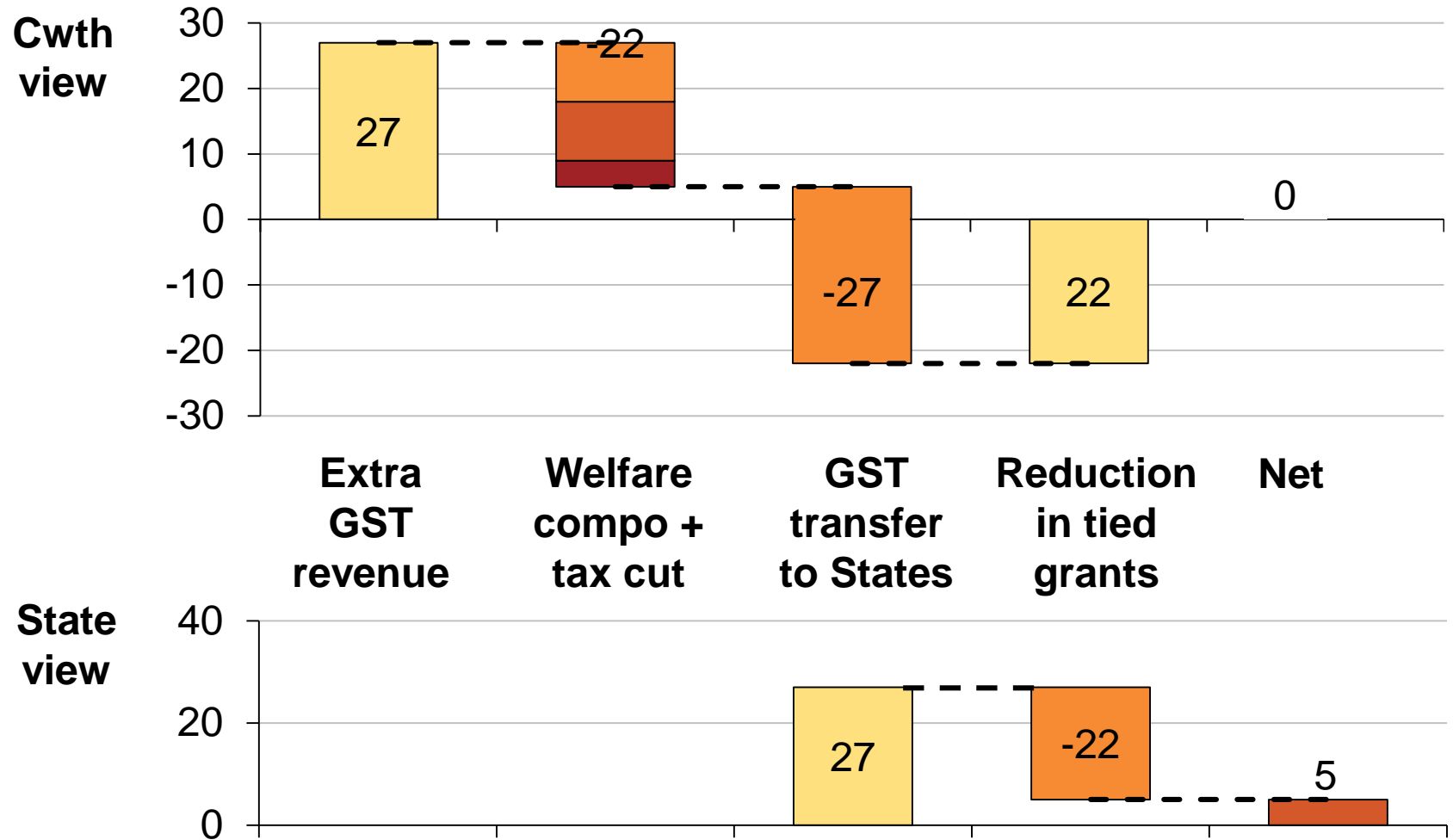
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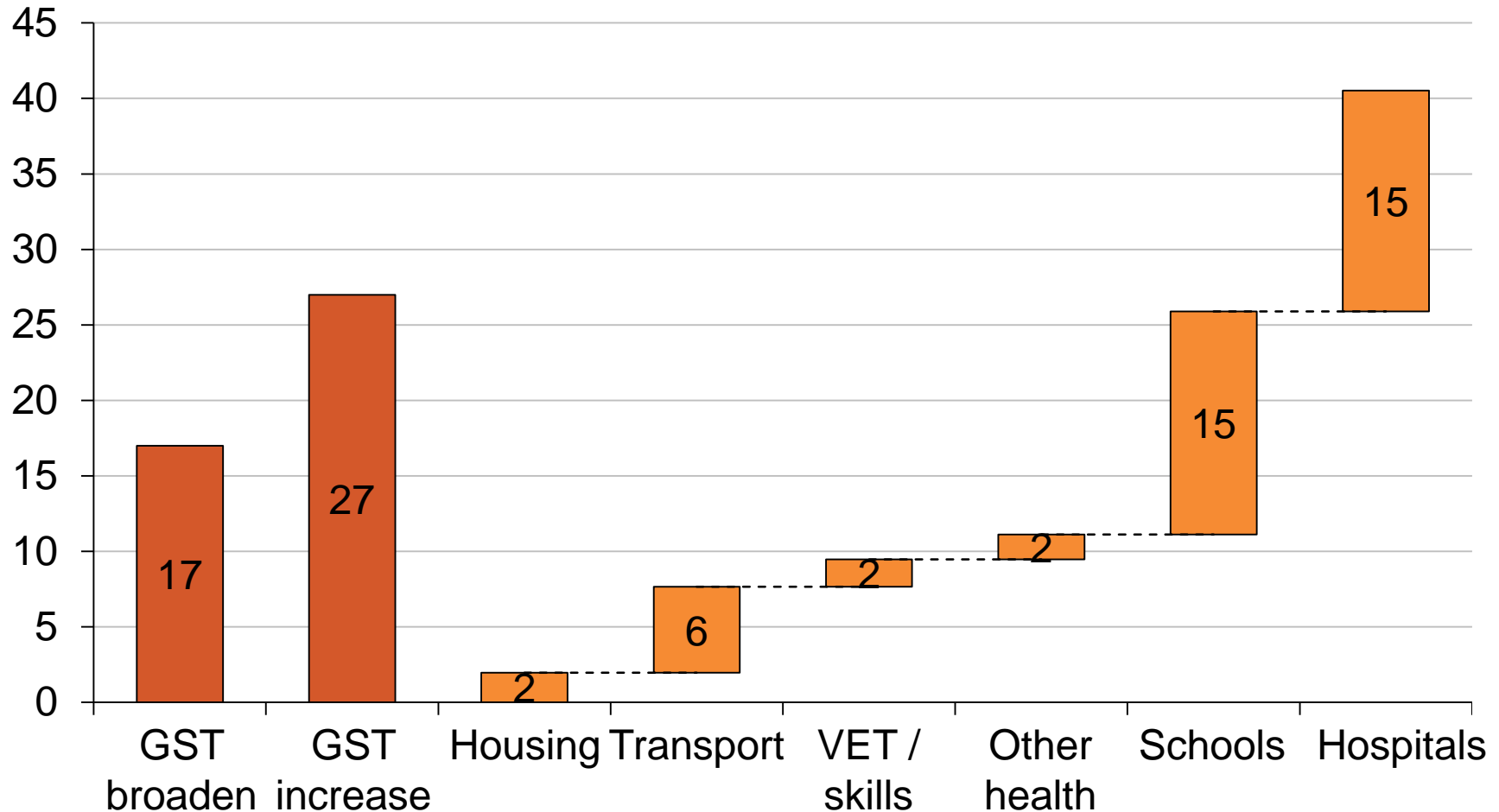
# What might GST reform look like?

Budgetary changes, 2014-15, \$billion/yr



# GST broadening or increase implies reductions in schools or hospitals tied grants

Budgetary impacts of GST and tied grant changes, 2014-15, \$billion/yr



Notes: 'Housing' comprises transfers for social housing, homelessness and remote Indigenous housing. 'Other health' includes transfers for health infrastructure, public health, dental, Indigenous health and other health services. 'Transport' includes \$509.6 million of payments for local governments.

Source: Commonwealth government, *Budget 2014-15: budget paper 3*, 2014.



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<b>Sharing the cost of reform</b>	<ul style="list-style-type: none"> <li>Property tax / stamp duty swap <b>✓ ✓</b></li> <li>Zoning / planning reform</li> </ul>	<ul style="list-style-type: none"> <li>Intergov agreement signals quality reform <b>✓</b></li> <li>Agreements limit political mileage for opposition <b>? Property ? Planning</b></li> </ul>



# **Why change the federation?**

**John Daley, CEO**

**The Australian Economic and  
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