



Speech By
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MEMBER FOR CHATSWORTH

MATTERS OF PUBLIC INTEREST

Commonwealth-State Relations

 **Mr MINNIKIN** (Chatsworth—LNP) (11.11 am): Many years ago I watched an episode of *Four Corners* that, to the best of my memory, was titled the 'National Jigsaw Puzzle', which dealt with duplication in the service delivery of the federal and state governments. I was taken aback by the absolute waste of taxpayers' dollars being spent on service delivery that was being covered by multiple tiers of government. At one stage of my career I was the executive officer of Redland shire council, as it was then known, and at that time it continued to amaze me that areas such as health and child care had all three levels of government with their finger in the pie.

I rise today to speak about the important issue of vertical fiscal imbalance and the need to embrace competitive federalism. Many of my constituents of the Chatsworth electorate may not understand that technical description, but they certainly know about the confusion being caused by wedge politics and the impact of service duplication and the abject waste across key areas of government. Two of the most recent examples of duplication that come to mind are the NDIS and the Gonski education reform.

The bottom line is that many constituents are now confused about which tier of government is responsible for what in terms of actual service delivery. Several years ago those tiers of responsibility were more straightforward. The federal government was concerned with functions such as defence, monetary and fiscal policy whilst the states delivered services such as education, health, policing, public transport and main roads. We now have the situation where the federal government controls the purse strings to much of health and education funding, but how many hospitals and bricks-and-mortar schools does the federal government have? The terms competitive federalism, vertical fiscal imbalance and horizontal equalisation are concerned about the system of political economy that exists in Australia and the financial relationship between the Commonwealth and other levels of government.

The current framework for Commonwealth-state financial relations in Australia is set out in the Intergovernmental Agreement on Federal Financial Relations, which came into effect on 1 January 2009. A key theoretical objective of the framework was to increase the accountability of Commonwealth and state and territory governments to the public underpinned by clearer roles and responsibilities in respect of each jurisdiction. I put it to members that, given the confusion with health, education and disability service delivery and the ongoing tension between the federal government and the state governments, that framework has not worked effectively.

While the Commonwealth collects the majority of taxation revenue it is the states that maintain responsibility for service delivery in areas such as education, health and main roads. Therefore, it is necessary for the Commonwealth to distribute funding to the states to enable the delivery of these key services. Competitive federalism relies on the concept of competition such as that within a free market and enabling free choices to be made by citizens and organisations. Competitive federalism allows for

innovation and diversity whilst also allowing for horizontal cooperation across jurisdictions in policy areas of mutual interest.

In the postwar period, the Commonwealth's responsibility has extended into some state areas through specific purpose payments to the states under section 96 of the Constitution. The SPPs promote Commonwealth objectives in areas such as public hospitals, schools, roads and housing. The difference between the relative revenue and spending responsibilities of the Commonwealth and the states is known as vertical fiscal imbalance. The VFI has existed as long as Australian Federation. However, the issue has become more prominent in the post-1945 era as income tax revenue has become the domain of the Commonwealth government. Essentially, the Commonwealth government raises more revenue than it requires for its own expenditure needs while the state governments are on average able to raise only half of the revenue that they require for their expenditure needs.

According to the OECD, Australia has a very high level of VFI compared to other federations such as Canada and the United States. Indeed, Australia has the greatest degree of VFI of any federal country. The Commonwealth's own-source revenue—about 75 per cent of total Commonwealth and state revenue—exceeds its own-purpose outlays of around 57 per cent of Commonwealth and state spending combined.

In 2012 in volume 28, edition 2 of *Policy* magazine, James Allan argues that federalism creates a more competitive and prosperous society. In that article he stated—

The conceit in this country is that a one-size-fits-all central government would spend money better than the states would ... All of us who care about lean, efficient government in Australia ought to be cheering on the Newman and Barnett governments as they appear to be giving a hint of life to a workable federalist system of government in this country.

I am a pragmatic and responsible man. It make perfect sense for certain functions of government to be centrally controlled, such as defence, currency and passports. However, I am a passionate defender of state rights and the notions of competitive federalism and the means to address VFI are as important as ever, particularly with one of the worst federal governments this country has ever seen. Hopefully, this situation will change on 14 September, if not sooner.