

Function Summary

Fiscal Federalism *Professor Ross Garnaut*

Ross spoke eloquently to ABE about the inefficiencies of the present Commonwealth-State funding system, providing the colour and emphasis that underlies the paper that he and Vince FitzGerald will present at the Forum in Old Parliament House on 13 March 2002.

In answer to questions, Ross spelled out some of the political realities ahead if changes to present arrangements are to be implemented:

- either the Commonwealth Grants Commission could see merit in the Review recommendations and adopt them,
- or the Commonwealth might direct the CGC to adopt some of the ideas,
- or there might be (very unlikely) unanimous acceptance of the recommendations by the states,
- or political pressure from the 'donor' states might persuade the 'recipient' states and the CGC to make changes

Ross also outlined his gut-feel of the improvement that the nation could achieve with reformed arrangements. He noted estimates that the current arrangements involved an annual cost to the nation and therefore an impediment to economic growth of the order of:

- static deadweight costs of \$A200m,
- some \$A5-10m cost of the salaries of the best and brightest Treasury officials in the 2 tiers of government engaged in gamesmanship rather than productive endeavours,
- unquantified costs for the 9 identified aspects of 'inefficiency' and – most important –
- the adverse political economy of the current policy.

The latter involves asking why the weakest state (Tasmania) was forever the weakest – other equally disadvantaged areas in other states did more to get ahead (e.g. some rural areas in NSW and Vic and Qld), and it is plausible to consider that the CGC arrangements give Tasmania (or even NSW) an incentive to not try.

In summing up, the ABE Chairman concluded that the political difficulties impeding change were obvious. However, the present arrangements impose a cost disadvantage on Sydney as it competes for business as a financial centre against other Asian cities. Focusing attention on this might best garner support for change.

Alex Erskine