

## Submission in response to the Productivity Commission Draft Report on Horizontal Fiscal Equalisation (HFE)

M C Dillon

This submission deals with the narrow issue of raised in *Draft Recommendation 9.3* of the Commission's Draft Report advocating a reform process for Federal Financial relations which *inter alia* allocates clearer responsibilities between the states and territories and the Federal Government, and in particular, suggests that policies to address Indigenous disadvantage should be a priority in this regard.

I have no fundamental problem with the intention of this recommendation, but note that for the reasons outlined below, the assumption or use of the concept of an overarching category of 'Indigenous person' which does not reflect the specific nature, causes, and current manifestations of the disadvantage afflicting Indigenous citizens may lead to counter-intuitive and unintended outcomes.

The fact that the Commission singled out the issue of Indigenous disadvantage reflects a correct reading that this is an issue which goes to the core of our national character, and has a salience beyond the technical details of HFE. Nevertheless, for the reasons outlined below, the recommendation is in my view not as comprehensive or well targeted as it might be.

My submission focusses on two points which relate to the ways that the HFE process impacts on Indigenous citizens.

First, it is increasingly apparent that the nature of the disadvantage suffered by remote and non-remote Indigenous citizens is different, and accordingly, policies generally and in particular the reform processes advocated by the Commission in relation to HFE and federal financial relations need to take account of those differences. For example, the most recent Census data which is only now becoming available suggests that the levels inequality between the most remote Indigenous citizens and non-remote Indigenous citizens is wider than the spread of inequality within the non-Indigenous population. See for example Dr Francis Markham's recent seminar at the ANU Centre for Aboriginal Economic Policy: '*The Geographic divergence of Indigenous incomes: Census evidence 2006-2016*'. I understand these results will be published in the near future.

Accordingly, it is increasingly untenable for the HFE process undertaken by the Grants Commission in assessing disability factors to make no distinction between the very different needs of remote and non-remote Indigenous citizens. Moreover, there are increasing indications that the levels of Indigenous identification in non-remote regions may have been increasing, with the potential result that the Indigenous population of south-eastern Australia is increasing not through population growth, but through a broadening of the population base. This has the potential to distort the relativities within the HFE process, to the disadvantage of jurisdictions with remote populations, and thus potentially reinforces the deep-seated structural disadvantage which afflict those populations.

The second issue I raise also impacts most severely on remote Indigenous populations, and arises from the fact that state and territory governments are under no obligation to allocate GST revenues in accordance with the comparative needs identified by the Commission as the basis for calculating their respective allocations. Moreover, the comparatively weak electoral and political influence of remote Indigenous populations means that it is unlikely that they receive a share of recurrent funding which accurately reflects levels of need. Moreover, remote populations face a particular

structural disadvantage in relation to capital investment by governments insofar as not only do they not obtain a fair share of current capital investment by the states and territories (and perhaps even the Commonwealth), but they reside in regions which were settled much later in the nation's history than regional and metropolitan regions, and thus have a historic capital investment deficit.<sup>1</sup>

The HFE process (as I understand its operation) does not seek to address the structural disadvantage related to capital investments by government, let alone historical capital investment deficits. The combination of these two factors leads to a level of structural neglect in terms of jurisdictions' funding and investment towards remote populations. Clarifying responsibilities between the Commonwealth and the states and territories will not necessarily address these structural impediments.

One approach which was suggested in a book<sup>2</sup> I co-authored with Neil Westbury in 2007 would be to create a notional 'remote Australia' jurisdiction for HFE purposes and require individual jurisdictions to, at a minimum, allocate the GST revenues received in relation to disability factors pertaining to the notional remote jurisdiction within that notional area in their state or territory.

There may be other ways to address the structural impediment. My submission however is that the structural impediment which leads states and territories to under-invest (in terms of assessed needs) in remote parts of their jurisdictions should be addressed.

I note in this context that historically (following the 1967 referendum) a key driver for the Commonwealth to begin funding Indigenous populations in the states was their deep reluctance to allocate anything more than minimal funding to their Indigenous populations. That is, the shared and confused responsibilities which the Commission has identified as a problem in Draft *Recommendation 9.3* are in fact the result of the Commonwealth historically seeking to address an extreme structural impediment. That impediment continues to exist, and while there is a rationale for clarifying responsibilities, if the underlying structural impediment is not addressed, then Indigenous disadvantage in remote regions in particular will continue.

For the reasons outlined above, I suggest that the Commission needs to fundamentally re-think *Recommendation 9.3* insofar as it relates to Indigenous disadvantage, and complement it with a recommendation which more effectively addresses the nature of the disadvantage afflicting remote Indigenous citizens.

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<sup>1</sup> Of course, the implication of this point is that Indigenous populations in more settled parts of the nation have suffered the consequences of colonisation for longer, and this may shape different types or degrees of disadvantage which affects them more seriously such as intergenerational trauma arising from dispossession.

<sup>2</sup> Dillon and Westbury (2007) *Beyond Humbug: transforming government engagement with Indigenous Australia*, Seaview Press, Adelaide.