

SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO HORIZONTAL FISCAL EQUALISATION

The Productivity Commission report seems to have glossed over the fundamental reason why Governments need any revenue at all. And that has to be clear before there is a debate about how the revenue available should be divvied up.

State and Territory Governments' only need revenue to enable residents to have access to Government services, especially Health, Education and Law and Order, which burn up most of the revenue. If no services needed to be provided, there would be no revenue requirement. If there is more revenue available, the Government can provide a higher standard of services, such as a wider range of services, like more specialised Health services, or more teachers per classroom/police per capita and the like.

The current processes for divvying up the GST money amongst the States are designed to allow Governments the fiscal capacity to provide equivalent residents in each State around about the same standard of services. So residents in Perth can have around about the same standards of Government services as residents of Brisbane, though it is up to the Government of the day to decide the relative priorities in how the money is spent.

As State and Territory Governments only need revenue in order to provide Government services, the only argument justifying more revenue to one State over another is if it is considered acceptable for residents in one State or Territory to have higher standards of service than residents in other jurisdictions.

It is doubtful if any thinking Australian would believe that was appropriate. It would certainly be a different Australia to what we have now if some States were to have the capacity to provide higher standards of Government services than other States.

The Productivity Commission's background paper attached to the draft report had a wonderful quote from former Prime Minister John Howard that summarises the principle behind horizontal fiscal equalisation: "I'm an Australian and as far as I'm concerned all Australians should be treated equally no matter where they live."

The bottom line is that the current fiscal equalisation arrangements have served Australia well. Like the jury system and democracy, the current equalisation arrangements are not perfect and where there are deficiencies identified they should continue to be fixed. But any 'fixes' must not stray from the underlying principle of allowing State and Territory Governments the capacity to provide residents in each State and Territory with the broadly the same standard of services.

Ken Clarke

9 Nov 2017