

Productivity Review

Submission to Australian Government Productivity Commission

Background

Two of the early initiatives of the Abbott government were to commission “white papers” on taxation reform and Federation reform.

I have long thought reform of the Federation was potentially the next great economic advance and was excited by the Abbott government initiative. It is regrettable that on becoming PM, Mr. Turnbull decommissioned these white papers, despite no doubt many people having made a significant investment in the process.

When, before the 2016 election, Turnbull suggested handing income tax powers to the States would be the greatest “reform of the Federation for decades” I thought he may have been privy to work done on the white paper. I was disappointed when, under pressure from most State governments, Turnbull dropped this “great reform” within 48 hours of suggesting it.

The public sector represents around 40% of the economy [GDP] and is arguably the least efficient. Reform of the public sector has the greatest potential for improved productivity and economic performance. This will require addressing the so - called “vertical fiscal imbalance” which in turn means forcing states to raise income tax.

Federal/State government reform.

Each of the Federal and State governments must be solely responsible for their Constitutional responsibilities. For example, the federal government has no constitutional powers for health [other than through Section 51(xxiiiA) inserted in 1946] or education, so should not be providing funds for schools and hospitals.

To achieve vertical fiscal balance and clear lines of accountability, the States must be encouraged to raise their own income tax and probably at the same time rationalise some of their other more inefficient taxes. Following the Canadian example, it would be more efficient if the States agreed that their income taxes be collected by the ATO under a uniform code.

To achieve this the Federal government should give State governments 12 months notice of its intention to withdraw all grants and at the same time reduce its income tax collection by an equal or greater amount. States would then have to decide between:

- Increasing GST [and probably the basis on which it is shared between States];
- Introducing an income tax [under the above provisos]; or
- Raising alternative taxes such as a new property tax.

As noted on the Federal Governments parliamentary education office website:

“Technically a state could still collect its own income tax but this would mean its people would be taxed twice and the state would forfeit its funding grants.”

This action would basically be doing the reverse of what the Curtin government did in 1942, which interestingly was challenged in the High Court by four States who were reluctant to give up their income taxing rights!

[Federal] State/Local government reform.

Unlike Federal and State governments, local government is constituted under State Acts of Parliament and should not receive any funding from the Federal government.

Their responsibilities must be restricted to clearly defined community services and must not extend into areas of State or Federal responsibility.

It would undoubtedly be more productive if these services were funded by State governments and administered by State government appointed “administrators.”

Under this model, a State government, through a Minister for Local Government:

- Could stipulate and contract out state wide/regional services such as rubbish collection, road maintenance, etc;
- Could collect current local government rates and taxes or alternatively replace them with other forms of property or “poll” taxes.