

## 2. ALTERNATIVE POLICIES

### A. STRONG CENTRAL GOVERNMENT WITH DECENTRALIZATION THROUGH STRENGTHENING LOCAL GOVERNMENT

As suggested earlier responsible government could be restored in Australia through re-allocating responsibilities or income sources or both between the three tiers of government. Education, health and welfare and transport were left as State responsibilities at Federation and expenditure of these functions takes up a large proportion of State budgets. The Australian Government makes a substantial indirect contribution of funds which helps to meet the bill on these items. Natural resources also remain the responsibility of the State government, yet the way in which they are utilized affects the nation as a whole. If responsibility for these functions was transferred to the Australian Government, State financial problems would be largely overcome, and responsible government restored. The result would be increased central control.

#### The Re-Allocation of Responsibilities

There is a strong social argument for the transfer of education and health and welfare powers to the Australian Government. The right of every Australian to equal opportunity in education and health and welfare services has been firmly established in our Federation. The existence of the Grants Commission is evidence of this belief. It is the task of the Commission to endeavour to ensure that each State is in a position to provide services for its citizens of a like standard to those in other States. The first equalization grants were paid as far back as 1911 and the Grants Commission was first established in 1933.

There are those who argue that each State should have the right to choose whether it has higher tax and better services or lower tax and fewer or lower quality services. This argument could be strongly supported if all residents

in any State were of a sufficiently high standard of living to be able to move to another State if they were disadvantaged.

It may well be that the members of the State who most need the services have little political influence. The low income family, which is most in need of free high standard education services and low cost or free health and welfare services is not easily able to pack its bags and move across the border to a more socially conscious State.

### Education

The national aim behind education should be to ensure equal opportunity for every Australian child regardless of geographical location. The States have had to rely on the Australian Government for financial support to carry out their education programmes. The end result, whether the fault of State policy or the method of financing, has been varied. In particular the method of Commonwealth assistance has led to problems in the education systems in the States. The Commonwealth has required State Governments to spend specific amounts where Commonwealth grants have been made available. This has effected the States overall allocation of funds within their education systems—possibly assisting one form of educational institution at the expense of another.

Factors such as area, climate, topography, size and distribution of population and productive capacity and levels of income and expenditure vary from State to State and a State's ability to provide services differs accordingly. There are also considerable differences between States in the average rate of economic growth, as reflected in the growth of population and output of goods and services. As indicated earlier in this statement it has been the task of the Grants Commission to iron out such inequalities and promote increased equality in the provision of services. But the Grants Commission can only go so far in equalizing opportunity in provision of a service such as education. Table VII shows a substantial variance between States in per capita expenditure on In 1972-73 the variance was from a low of \$89.66 per capita for Queensland to a high of \$120.31, i.e. Tasmanian expenditure per capita was 33% above that in Queensland. Without detailed analysis it is difficult to ascertain the cause of this variance, but in view of Queensland's disadvantage in terms of population spread, it seems reasonable to assume that it may be substantially a result of policy differences and variance in structure of the education system between the States. It certainly seems possible that children in Queensland may not be receiving a standard of education as high as children in Tasmania. However, the figures produced by the Grants Commission do not include fixed capital expenditure and this may have been high in Queensland in 1972-73. Nevertheless, whereas capital expenditures may be "lumpy" and not comparable year to year, general expenditure should be and it is hard to see with such population spread in Queensland why general expenditure per capita could lag behind other States if standards are to be equal in all States.

There is a further problem of varying standards within States. All children within a State do not have equal opportunity in education. To provide equal opportunity would be exceedingly costly. The child whose parents are reasonably well off financially is still likely to attend a better school than the child

TABLE VII

Per Capita Expenditure on Education and Health and Welfare  
1972-73

	Expenditure from Consolidated Revenue and Special Funds (a)	
	\$ m.	\$ per cap.
<b>HEALTH AND WELFARE</b>		
New South Wales	255.7	54.44
Victoria	172.8	48.28
Queensland	100.4	52.92
South Australia	67.3	56.30
Western Australia	80.1	75.29
Tasmania	25.0	63.36
Six States	701.4	54.68
<b>EDUCATION</b>		
New South Wales	470.0	100.09
Victoria	403.1	112.62
Queensland	170.0	89.66
South Australia	134.1	112.20
Western Australia	116.4	109.37
Tasmania	47.5	120.31
Six States	1,341.2	104.56

NOTE: a) Does not include capital expenditures.

SOURCE: Grants Commission 41st Report, 1974, Appendix E, Table 7.

whose parents have a lower income. The facilities in the State School system vary from area to area dependent on the pressure applied by parents for better facilities.

The private schools have even better facilities and they are available only to a select few in the community. This is not to say that all schools should have the same facilities, but all schools should have access to sufficient funds to meet their varying needs. Here per head grants would not provide the answer since many schools are so far behind they now need special assistance. The case for involvement of local councils is very strong since they should know better than the State the needs of a school in a particular area. The prob-

lems are compounded with country schools where distance is a great problem and where local council involvement could be even more valuable.

The most severely neglected child has been the child with learning difficulties. These children require remedial teaching and teachers can be trained to provide this special service. Indeed each teacher needs a certain amount of training to be able to determine when a child needs remedial teaching. Attempts are being made to train more remedial teachers but the need is very great and the cost very high. As the situation stands now the child from a poor family with a learning problem in the city, and especially in the country, has a very great problem. He is fortunate if it is even realised that he has a learning problem.

Both the Australian Government and the States have accepted the problems in relation to tertiary education now and the Australian Government has accepted full responsibility for this area of education. An immediate effect has been the abolition of fees which State governments had been forced to impose to maintain standards of education. Benefits could arise from the transfer of primary and secondary education and State expenditure could be greatly reduced.

#### Health and Welfare

Provision of health and welfare services is one of the most important of government functions and certainly one of the most costly. In 1971-72 State and local governments spent \$701 m.<sup>1</sup> on health and welfare (Table VIII), 47% as much as was spent on education. The Australian Government spent approximately 32% of the amount spent by State and local government, not including grants to local government. This expenditure was far from adequate. In addition to the problem of steeply rising costs of medical equipment for hospitals and their institutions and the rising cost of medicine generally there is a very great need, in all States, for better facilities for the mentally ill, the aged and retarded and handicapped children. The States do not have the finance to cope quickly with these growing problems and in addition policy differences between States may cause inequalities.

No cost/benefit analysis has been carried out to determine whether there would be economic advantages in transferring the responsibility for health and welfare to the Australian Government. Nor is such a costly study likely to be carried out. Without such a study it is only possible to make careful value judgements.

If health and welfare was an Australian Government responsibility it would be easier to co-ordinate national developments and minimise inequalities between the States. Administration in many areas could still be handled by the

1. In 1972-73 (see Table VII) State Expenditure on Health and Welfare from Consolidated Revenue and Special Funds totalled \$701.4 m. or \$ 54.68 per capita. The lowest per capita expenditure was \$ 48.28 in Victoria, the highest, \$ 75.29 in Western Australia.

TABLE VIII  
Comparison of Certain Expenditure  
1971-72 \$m.

	Australian Government			State Government			Local Government			Total Government A+B+C
	Final Expend. \$m.	Cash Benef- its to persons	Total A	Final Expend. on new umpt. Assets \$m.	Total B	Final Expend. on new umpt. Assets \$m.	Total C	Final Expend. on new umpt. Assets \$m.	Total C	
General Public Services -										
Law order & public safety	31	-	34	277	29	306	-	-	-	340
Other general*	443	5	482	172	18	190	97	30	127	799
Defence	1,135	1	1,135	-	-	-	-	-	-	1,135
Education	64	54	143	1,203	273	1,476	-	-	-	1,619
Health	139	508	669	500	95	595	29	-	29	1,293
Social Security & Welfare Housing & community am- enities*	59	1,477	1,539	68	8	76	1	-	1	1,616
Recreation & related cult- ural activities	12	-	42	9	242	251	17	37	54	347
Economic Services:	87	-	102	31	26	57	58	24	82	241
Mining, manufacturing & construction*	11	-	13	15	26	41	-	2	2	56
Electricity, gas & water supply*	1	-	32	2	425	427	-	108	108	567
Transport & communications*	56	-	714	10	628	638	-	300	300	1,652
Other economic services*	144	4	157	134	137	271	18	1	19	447
Other purposes	-	-	-	3	1	4	-	-	-	4
	2,182(b)	832(b)	2,048	5,062	2,425(b)	1,909(b)	4,334	220(b)	503(b)	723
										10,119

SOURCE: Public Authority Finance, State and Local Authorities, 1972-73 5.43

NOTE: (a) 1971-72 year is used because amounts for 1972-73 are not available at the time of completion of this paper on items marked \*.

(b) Note slight variance with Table 7 in Appendix 2. Figures extracted from different sources.

State Government. However, the way would be left open to involve local councils more extensively in the provision of health and welfare services. The role of local councils is very important here, particularly in welfare services for the aged, the ill and the mentally handicapped. Councils already provide valuable services in baby health and child minding centres. The important thing is that the local council is in closer contact with the people and should be more easily approachable.

#### Transport and Communications

This item is now taking a very large slice of State income. In 1971-72 the States and local government spent \$938 m., (14% of their total expenditure), on roads, railways and other transport and communications, yet public transport in the cities is inadequate and road networks might be more effective if they formed part of a plan to rejuvenate old cities and develop new cities. The State railway services are far from adequate - rolling stock used in urban services is slow, frequently dirty, hot in summer, cold in winter, overcrowded at peak hours, well under capacity in off peak and frequently not running to time table. The States are making heavy losses on operation of the railways and request financial support from the Federal Government to help meet deficits.

The Australian Government aims to promote regional development which is very well worthwhile, although it is difficult at this stage to determine how successful its plans will be. Certainly, if building of roads and financing of railway development was an Australian Government matter, it would provide an additional tool for encouraging decentralization. It would also ease the State's financial problems considerably. This is particularly so with railway operations where States have severe and regular losses. An entirely new nationally co-ordinated approach to railways is needed although it need not necessarily mean that railways be run by the Government. The Australian Government could run them through a semi-government authority established on private enterprise lines with Government capital backing.

It is possible that efficiencies arising from national co-ordination and removal of anomalies which arise from differing State practices might result in profitable transport operations. Certainly it is worthy of close consideration and cost-benefit analysis.

#### Natural Resources

A problem also arises with natural resources including oil and gas which are State responsibilities and are only indirectly controlled by the National Government. The State of the Australian economy now and in the future will be very greatly effected by management of these resources.

Since power resides with the States there is an element of competition between the States to develop certain material resources to compete for markets, and to compete for finance and personnel. This tendency has been controlled to some extent through the imposition by the Australian Government of import controls on exports of all natural resources. But it is not possible to

TABLE IX  
State Authorities - Receipts and Outlay

	1970-71 \$m.	1971-72 \$m.	1972-73 \$m.
<b>OUTLAY</b>			
Final consumption expenditure	2,062.7	2,424.9	2,877.1
Gross capital formation	1,743.6	1,982.1	2,112.0
Transfer payments	892.9	1,011.0	1,135.2
Net advances	127.0	133.2	130.0
<b>Total Outlay</b>	<b>4,826.3</b>	<b>5,551.3</b>	<b>6,254.3</b>
Of which:			
Current Outlay	2,955.6	3,435.9	4,012.3
Capital Outlay	1,870.6	2,115.4	2,242.0
<b>RECEIPTS</b>			
Taxes, fees, fines, etc.	1,008.3	1,412.0	1,795.0
Income from public enterprises	361.9	378.0	309.6
Property income	201.4	215.9	238.4
Grants from Australian Government			
for current purposes	1,662.5	1,756.2	2,057.2
for capital purposes	554.3	625.9	706.1
<b>Total Receipts</b>	<b>3,788.4</b>	<b>4,387.9</b>	<b>5,106.3</b>
<b>FINANCING ITEMS</b>			
Net Borrowing			
Public Corporation securities	286.5	379.4	ei
Other general government securities	32.2	27.5	ei
Advances from Australian Government			
for loan work	366.4	549.6	601.3
Other	154.8	37.1	62.8
Other	198.0	169.8	483.9
<b>Total Financing Items</b>	<b>1,037.9</b>	<b>1,163.4</b>	<b>1,148.0</b>
<b>Total Funds Available</b>	<b>4,826.3</b>	<b>5,551.3</b>	<b>6,254.3</b>

NOTE: ei : elsewhere included.

SOURCE: Public Authority Finance, State and Local Authorities, 1972-73, Ref. 5.43.

prevent States competing for foreign investment by offering special incentives even if this competition is opposed to Australia's best interest.

It seems very likely that there may be advantage in national co-ordination of exploration for and production and marketing of natural resources. It is an issue deserving of close consideration now which was of no significance at the time of Federation and was not therefore covered specifically in the Constitution.

#### Fiscal Arrangements

In 1971-72 State Expenditure totalled \$5,551 m., 78% of which was outlayed on final consumption expenditure and expenditure on new assets (or gross capital formation) (Table IX). This portion of State expenditure is broken down into expenditure by function in Table VIII and compared with expenditure by the Australian Government and local government.

The Table shows that in 1971-72 the States spent \$1,476 m. on education, \$595 m. on health, \$76 m. on security and welfare and \$638 m. on transport and communications. Hence, \$2,785 m. or 64% of final consumption expenditure and expenditure on new assets by the States was spent on these four items. This is equivalent to 50% of total State expenditure in 1971-72. In that year the Federal Government paid \$2,381 m. to the States in grants.

If the responsibility for education, health, security and welfare and transport and economics rested with the Federal Government, in that year the State Governments would have been able to discharge their remaining responsibilities from their existing income sources. The following calculation shows that this would have applied in 1970-71, 1971-72 and 1972-73.

	1970-71	1971-72	1972-73
Total State expenditure	4,286	5,551	6,254
Less: Final consumption expenditure & expenditure on new fixed assets for education, health, security and welfare and transport and communications	2,384	2,786	3,184
Adjusted expenditure	1,902	2,765	3,070
Total Receipts	3,788	4,387	5,106
Less grants	2,217	2,382	2,763
	1,571	2,005	
Plus finance items	1,038	1,163	1,148
Funds Available	2,609	3,168	3,491

With the transfer of responsibility of the four items to the Australian Government, adjusted State expenditure would have approximated \$1,902 m. in 1970-71, \$2,765 m. in 1971-72 and \$3,070 m. in 1972-73. These figures

are overstated as no adjustment has been made for natural resources as these figures are not disclosed separately in the published statistics.

The funds available to the States after deducting all grants to the States would have totalled \$ 2,609 m. in 1970-71, \$ 3,168 m. in 1971-72 and \$ 3,491 m. in 1972-73. This estimation is slightly understated as equalization grants from the Australian Government to certain States would continue as would grants for national disaster relief. It is overstated in so far as taxes collected from mining companies have not been deducted from receipts.

This re-allocation of functions to the Australian Government would result in centralising power and would therefore be strongly opposed by strong supporters of federalism and by State Parliaments. It is unlikely that such a proposal could be quickly implemented since constitutional change is unlikely in the short term and the States would be unlikely to readily refer the powers. However, there is no need for rapid change with such a policy as it could be adopted gradually and indeed it has been happening gradually within the Federation. The States readily accepted the Australian Government's offer to take full responsibility for tertiary education and maybe forced to do the same with railways. They continually accept specific purpose grants which undermine their authority with little more than occasional dissent over this procedure. Indeed the process all began with the transfer of income taxation to the Commonwealth in 1942.

The re-arrangement of responsibilities could be achieved within the existing Constitutional framework and would overcome State financial problems. It would restore responsible government making the Australian Government fully responsible in areas where it is already indirectly responsible because it pours a great deal of money into these areas.

Although it is the proposal which will most likely receive more opposition than the two succeeding plans, it is the one most likely to come about in the natural course of events unless strong action is taken to prevent it.

Such a plan for centralising government activity would need to be balanced by expanding the role of local government and improving its status.

#### Responsibilities of Local Government

Local government functions are readily broken up into two categories. Some of the tasks of local government are better performed by a small body closely aware of community needs. This is so particularly with health and welfare services such as services for the old or the ill or disadvantaged in the community or assistance to mothers and children. Local government in Australia has not developed very much in these areas partly because of the nature of councils and communities but largely because of shortage of funds. The second category of functions are most efficiently performed on a larger scale because they benefit from economies of scale. These functions include sewerage, garbage disposal, purchasing for local councils, street lighting, recreation facilities, libraries, suburban roads and town planning. All these functions could be carried out at the regional level but all should be co-ordinated with national policy and State government and local council activity.

With any of these functions handling by a small body is usually inefficient. A collective effort with investment on a large scale usually results in improved services and general advantages to the community. Town planning particularly, to be carried out successfully, must be co-ordinated on a larger scale than individual council planning would permit.

The chief argument against amalgamation of local councils is that in many functions and in many areas they operate quite efficiently. The real problem is that the quality of a local council is dependent on the quality of its Councillors and staff. The chief argument in favour of amalgamation is economies of scale in some functions. Two tier local government has both individuality and economies of scale and should be quite workable. In fact it is already practised in so far as we do have Metropolitan Boards of Works, Sewerage Authorities, Water Boards and the like. The Australian Government's plans for regional local government are in effect an extension of this two tier planning and should provide a basis for extending the role of local government.

The importance of the role of the third tier of government cannot be overemphasised. Local government in Australia at present is largely overlooked by the Australian public. Voters are sometimes apathetic over council elections. Whereas the average person would have some knowledge of the activities of the Federal Government (regretably not as much as he should have) he would be less likely to know the names of his local councillors or their current activities unless their activities closely impinged on what he considered to be his personal rights. Whether a particular council is good or bad is more a matter of luck than good judgement by the electorate.

The problems of local councils extend well beyond the shortage of funds. Councillors are not paid for their service to the community yet the task they carry out, if it is to be well done, is time consuming and cuts into their normal working hours. The social aspect of the office is costly and in some local councils it is not "fashionable" to claim this expense. In others an allowance is claimed which is not adequate to cover all expenses. As a result in most areas, the potential councillor has to be fairly well off, firstly, to cover the cost of campaigning and, secondly, to cover the inevitable costs incurred if he succeeds in gaining office. This can mean that citizens in the community who may be excellent councillor potential cannot afford to stand for office. Alternatively, they may feel that they cannot devote enough time to their tasks as councillors because their major effort must be concentrated on earning a living. The most unfortunate aspect of the honorary system is that it makes corruption, particularly in relation to real estate, just that little bit more likely.

The councils are handicapped in attracting suitable professional staff. Their position is improving but although they may be able to compete with salary levels they cannot offer the same career opportunities as the State and Australian Government public services.

If these problems could be minimised and the financial status of local government improved, then the third tier of government could then make a very much greater contribution to the provision of health and welfare services and possibly become involved in education.

## FISCAL FEDERALISM

March, 1975.

The financial position of local councils could be greatly improved through access to the Grants Commission under the Australian Government's present scheme. Further effort should be made to give local councils access to the Loan Council. Along with this financial assistance the Australian Government should take steps, under such a scheme of re-arrangement of responsibilities to ensure that local government becomes increasingly involved in areas of health and welfare. The possibility of local government in education should also be examined carefully.