

Making Federalism Work: The Economic Imperatives

Address to the Australia and New Zealand School of Government
Crown Promenade Hotel
Friday 12 September
Melbourne
9am

Robert Milliner
Chairman, Business Council of Australia Business Reform Task Force

Business
Council of
Australia



Why reform of federal–state relations is an economic imperative

It will come as no surprise to anyone here that the Business Council of Australia considers reform of our federal–state relations to be an economic imperative.

But it's more than that.

Making federalism work is a prosperity imperative.

Poor federal–state relations impact people's lives, as well as their pockets. Poor federal–state relations cost businesses time and money, and distracts them from more productive activities.

All these things detract from Australia's long-term prosperity goals.

The ambitions set by the 2020 Summit were:

- to be the best place in the world to live and work; and
- to have a GDP per capita ranking among the top five nations.

To achieve those 2020 Summit ambitions, we need to make our federal system operate to the benefit, not the detriment, of all businesses and employees – regardless of their location.

The fundamental challenge

If the history of regulatory reform tells us anything, it's that significant and lasting change is a complex, politically difficult and often frustratingly slow process.

Many of the conference sessions we've heard so far have given us good indications of some of the difficulties we face.

From the BCA's perspective the priority is clear, and has been for many years:

If we are to create the economic prosperity that Australia needs, and if we are to create the social prosperity that Australians deserve, we need to get serious about making federalism work.

And we need to get serious right now. 2020 is not that far away.

The past decade has delivered unusually strong and consistent growth. Government revenues have surged. In the federal Budget, for example, upward revisions to revenues have delivered more than \$87 billion in additional funds since 2002.

That growth has removed some of the pressure for reform of inefficient policy settings like federal–state duplication and excessive regulation.

But a strong economy can only mask these inefficiencies for so long.

For a number of years now, the BCA has been conducting detailed policy research in areas it considers critical to Australia's economic and social prosperity. These areas include infrastructure, innovation, education, regulation and taxation.

Through this research one common thread emerged.

Governments have been unable to work cooperatively to effectively address issues of national importance.

That has constrained the ability of business to invest, innovate, find qualified staff, compete, and grow.

For example, BCA member companies have identified instances where different state rules on resource exploration have deferred decisions to explore, where different planning and local government requirements have delayed business expansion and discouraged them from new job creation, and where requirements for multiple audits of the same infrastructure project by different levels of government have delayed investment.

These types of constraints, in turn, mean Australians face:

- higher prices;
- fewer choices;
- narrower employment opportunities; and
- for shareholders – including retirees – lower returns on their investments.

Changing the policy focus to a seamless economy

In recent times you will have heard economic commentators talking about the fact that we have become a supply-constrained economy. Some of our key export industries face some of the worst constraints.

In these circumstances, governments need to focus on supply-side policies, as only supply-side policies build capacity, and allow the economy to grow.

Supply-side policies mean focusing on things like education, that creates a larger pool of skilled Australian workers, and infrastructure, that gets Australian products to Australian ports.

Yet reforms in these areas are all characterised by a high degree of overlap and duplication. It's frequently unclear who should spend the money, and who should be held to account for results.

This is where changes need to be made. We need what the Business Council has dubbed a 'seamless economy'.

People are one of our most critical resources. How can we encourage employees to take up the best opportunities available if their skills are not transferable from state to state? Or if their childrens' education would be disrupted by a move?

In a country that suffers from critical infrastructure shortages, why do businesses still have to seek approval for the same major investment project multiple times, at federal, state and often local levels?

Shouldn't our system facilitate a uniform level of occupation health and safety, workers' compensation and equal opportunity for all employees, regardless of where they are located?

Despite the unified image we present to the world, doing business across Australia is made unnecessarily confusing, complex and costly by these differences.

The progress Australia has made in opening its economy and integrating with global markets is undermined by its inability to achieve a seamless economy.

Because we don't have a seamless economy:

- business processes move more slowly;
- resources flow to the wrong places; and
- productivity is lower than it should be.

Globalisation is a fact, and it matters. We need to work out how to make the most of globalisation by taking advantage of Australia's relative strengths, not hinder ourselves with additional red tape.

Ineffective and divergent regulatory practices can create perverse incentives and consequent behaviours that lead to allocative inefficiencies in the economy. Put simply, this means we are not putting our resources to their best uses.

The benefits of unified markets

Recent international research highlights the effectiveness of single markets in allowing economies to compete effectively in a dynamic global market.

Studies conducted in federations like the European Union and Canada flag the importance of considering internal markets in a global context, and the significance of well integrated domestic markets to external trade and investment policies.

This kind of research shows how high the stakes are. Allowing our domestic market to be unnecessarily fragmented detracts from our ability to compete with the world.

It also detracts from our ability to deal with critical national issues, as the Murray–Darling debate continues to demonstrate.

Not just an issue for big business

Let's be clear. This is not just a problem for large business.

Indeed, some of the worst affected businesses and individuals are those in small rural towns near state borders.

According to the ABS, there are almost 32,000 Australian businesses operating in multiple states. 4,300 of these were in every state and territory. That means these 4,300 businesses must comply with nine different regulatory regimes.

History provides the reason for the situation we are in. But it must not be used by governments as the excuse for inaction.

As the National Commission of Audit pointed out in 1996, “doing things better” is a prerequisite for stronger economic and employment growth. We must seek best practice ways of operating if we are going to prosper, and governments should not be excluded from such pressures to perform.

The role of COAG

If we are going to make genuine headway, all governments must come together, but the federal government must lead.

We've seen some good starts.

Prior to the first COAG meeting under the Rudd Government, the BCA released *A Charter for New Federalism*. That BCA report recommended that COAG:

- be better resourced;
- meet more frequently; and
- make its commitments and timelines publicly available.

That same BCA report also called for a more prominent monitoring, reporting and funding advisory role for the COAG Reform Council. And finally, it called for the establishment of a federal commission to assess COAG's role in enhancing economic and social prosperity.

COAG has since adopted a new framework that incorporates many of the principles proposed in the charter, including greater transparency and more frequent meetings.

The Rudd government's commitment to a reinvigorated COAG has been welcomed by all. We particularly welcomed moves to:

- Appoint a federal minister (Dr Craig Emerson) to specifically oversee the COAG deliberations on reform in conjunction with the new federal Minister for Deregulation, Lindsay Tanner;
- Make COAG meet four times this year, double the previous number of meetings; and
- Give the COAG Reform Council a greater role in assessing COAG's performance on certain reform measures.

Reflecting these steps and the magnitude of the COAG agenda, and pending the delivery of the outcomes promised by the revamped process, the BCA has not pursued its call for the establishment of a new federal commission to spearhead reform.

Notwithstanding these positive moves, the BCA still has some concerns about transparency around COAG processes. Before COAG meetings, the agenda should be set publicly. Between COAG meetings, outside parties should have enough information to assess whether genuine progress is being made. Also, outside parties should be able to identify exactly who is accountable for driving particular outcomes.

If COAG fails to deliver on its promises, the BCA will pursue more radical reform of COAG processes and institutions as a means of delivering better long term outcomes.

Committing to the implementation of a seamless economy for business regulation is also a great step forward. The BCA called for this in March this year. And the 2020 Summit in April endorsed it as a clear national priority.

The COAG business regulation working group charged with this task commenced operations by expanding the existing list of 10 regulatory hotspots to more than 20.

The hard part, of course, will be in the delivery.

There have been a number of achievements, like the recent agreement to adopt a national consumer law – a process which the Productivity Commission has estimated could provide a net gain to the community of between \$1.5 billion and \$4.5 billion a year.

Another achievement has been agreement to develop a national trade licensing system. This new system has an initial focus on trades designated as economically important, like electrical and building occupations. This system is supposed to be signed off by COAG in December this year.

But there can be a long way between agreement and attainment.

Even among some of the agreed priorities, like Occupational Health & Safety, we are already seeing state parochialism come in to play.

In their most recent communiqué, in relation to OH&S, COAG noted that:

‘Leaders signed an historic agreement to end the fragmented and inconsistent approach to the protection of workers’ occupational health and safety. This will see the implementation of uniform legislation, complemented by consistent compliance and enforcement. The harmonisation of occupational health and safety regimes has long been identified as a key issue for business, with the inconsistencies of current approaches resulting in unnecessary cost and complexity, particularly for those businesses that operate across jurisdictions. COAG recognised legitimate concerns about workplace safety and reaffirmed its requirement that there be no reduction or compromise in workplace safety.’

Yet, although states have agreed after many years of intense debate that uniform legislation is a national priority, we are once again hearing suggestions that some states support moving to uniform legislation only so long as it’s theirs.

We should not accept a slide back into these kinds of arguments.

At the end of the day, there are only so many ways to achieve nationally consistent legislation. It can be imposed, by the Commonwealth, from above (be that through referral of powers or the use of the corporations law).

It can be a new piece of legislation, purpose written and implemented by all states.

Or it can be the adoption by all of one states’ existing legislation.

Different areas of reform may require different approaches. The BCA has never said that one form of harmonisation is better than or preferable to another.

The fact is, in the move to nationally consistent legislation, no matter what that legislation relates to, some states will have to give up their existing systems.

No one says that making these transitions is easy, but political and bureaucratic barriers should not be permitted to hold us back.

The role of funding

The BCA has supported the federal government's proposal to offer financial incentives to assist states transition to more appropriate regimes where necessary and appropriate.

But no reform program should be seen as a funding grab. Whether in regulation or infrastructure, education or health, the use of such payments should be confined to areas where there is a clear and significant national policy objective.

Further, any such payments should be accompanied by a clearer allocation of responsibilities, and with a clear link to efficiency, innovation, and best practice in service delivery.

Conclusion: the need for cooperative action

Up until the BCA first issued its call to reshape Australia's federation in 2006, debate largely focused around the political and constitutional reasons for change.

However, it had become clear through the BCA's broader policy research that the dysfunctional system of federal–state relations was not geared to meet Australia's increasing economic and social challenges.

In an increasingly international economy, poor federal–state relations, particularly as they manifest themselves in poor regulation, are impeding successful home grown businesses as they expand interstate.

These unnecessary regulatory imposts add costs and make it more difficult for businesses to compete in international markets, particularly against businesses from countries with far more streamlined systems.

Sometimes these imposts are merely a small nuisance, but at other times they require substantial business investment in compliance activities using resources that could be better deployed elsewhere. Of greatest concern are the instances where the impost is sufficiently large to make businesses think twice about investment or expansion, resulting in an 'opportunity cost' of activity forgone that ultimately affects us all.

Through greater will and effort, governments can cooperatively establish a seamless economy that both delivers social objectives and allows Australia's businesses to reach their full potential and compete with the best in the world.

The fact is that no one government can meet these challenges alone.

Australia's federal system remains an integral part of our governance structure, and we must seek to make that governance structure as effective as possible.

How well we do this will be a key factor in our nation's future success.

[ends]