

Shadow Audit

How to reduce government scope, and fix Australia's budget emergency

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Executive summary

- This paper provides a catalogue of suggested options for reducing unnecessary federal government spending.
- It is recommended that, over the four years to 2016-17, minimum total expenditure savings could be made to the tune of \$95 billion, with estimated savings of \$21 billion this financial year alone.

	2013-14	2014-15	2015-16	2016-17	Total
Agriculture	514.7	497.6	464.8	443.8	1,920.8
Attorney-General	607.3	638.0	601.1	628.6	2,475.5
Communications	584.5	571.8	533.1	531.7	2,222.1
Defence	96.0	88.8	62.7	62.2	309.7
Education	228.9	214.0	147.7	189.8	783.2
Employment	248.2	245.0	287.2	307.7	1,088.2
Environment	4,763.1	5,458.7	4,757.5	6,211.7	21,190.0
Finance	3.3	3.4	3.4	2.7	12.8
Foreign affairs	6,775.8	6,319.7	6,541.0	10,008.2	29,642.7
Health	853.8	715.3	655.2	650.5	2,874.8
Human services	5.0	3.0	-	-	8.0
Immigration	111.4	2.5	2.5	2.5	118.9
Industry	3,629.7	3,851.0	3,439.6	2,680.3	13,600.8
Infrastructure	2,110.2	3,606.4	3,746.3	3,539.6	13,001.4
Prime Minister	27.8	24.9	25.3	24.7	102.5
Social services	582.7	598.5	1,765.3	2,570.2	5,516.7
Treasury	959.3	969.1	956.6	1,048.0	3,932.5
TOTAL	22,101.7	23,807.7	23,989.4	28,902.2	98,800.6

- The paper also suggests that the commonwealth privatise the following entities, yielding total sales revenue of between \$31 billion to \$38 billion: ABC and SBS; Australia Post; Australian Rail Track Corporation; Defence Housing Australia; Medibank Private; and Snowy Mountains Hydro-Electric Scheme.
- The paper also outlines a framework of longer term options for reforming the Australian welfare state, as well as rationalising commonwealth-state expenditure responsibilities.

1 Context

In late October 2013 the Liberal-National Coalition government announced a broad-ranging National Commission of Audit of the scope, efficiency and functions of the commonwealth government. Several objectives for the Audit Commission were cited in the terms of reference, released by Treasurer Joe Hockey and Finance Minister Matthias Cormann, as follows:

- ensure taxpayers are receiving value-for-money from each dollar spent
- eliminate wasteful spending
- identify areas of unnecessary duplication between the activities of the commonwealth and other levels of government
- identify areas or programs where commonwealth involvement is inappropriate, no longer needed, or blurs lines of accountability
- improve the overall efficiency and effectiveness with which government services and policy advice are delivered.¹

The announcement of a Commission of Audit comes about 17 years after the announcement of an Audit Commission, presided over by financial economist Bob Officer, and the subsequent release of a comprehensive report arguing for the rationalisation of commonwealth activities and realignment of commonwealth-state relations.

While the Howard government adopted several recommendations, particularly with regard to outsourcing administrative functions, several legacy issues remain outstanding which could be considered as recommendations in the 2013 Audit.

Over the ensuing period, there have been several key developments which justify the policy imperative of undertaking another thorough review into the operations of government.

Arguably the most apparent change, that has transpired over the past six years, has been the significant deterioration in the commonwealth's budgetary and fiscal circumstances, so much so that it has been appropriately described, in political circles, as a 'budget emergency' (Figure 1).

¹ Hon Joe Hockey MP, 2013, 'Coalition commences National Commission of Audit', Joint Media Release with Senator the Hon Matthias Cormann, 22 October, <http://jbh.ministers.treasury.gov.au/media-release/009-2013/#attachment>.

Figure 1: From budget security to budget emergency, in a few short years



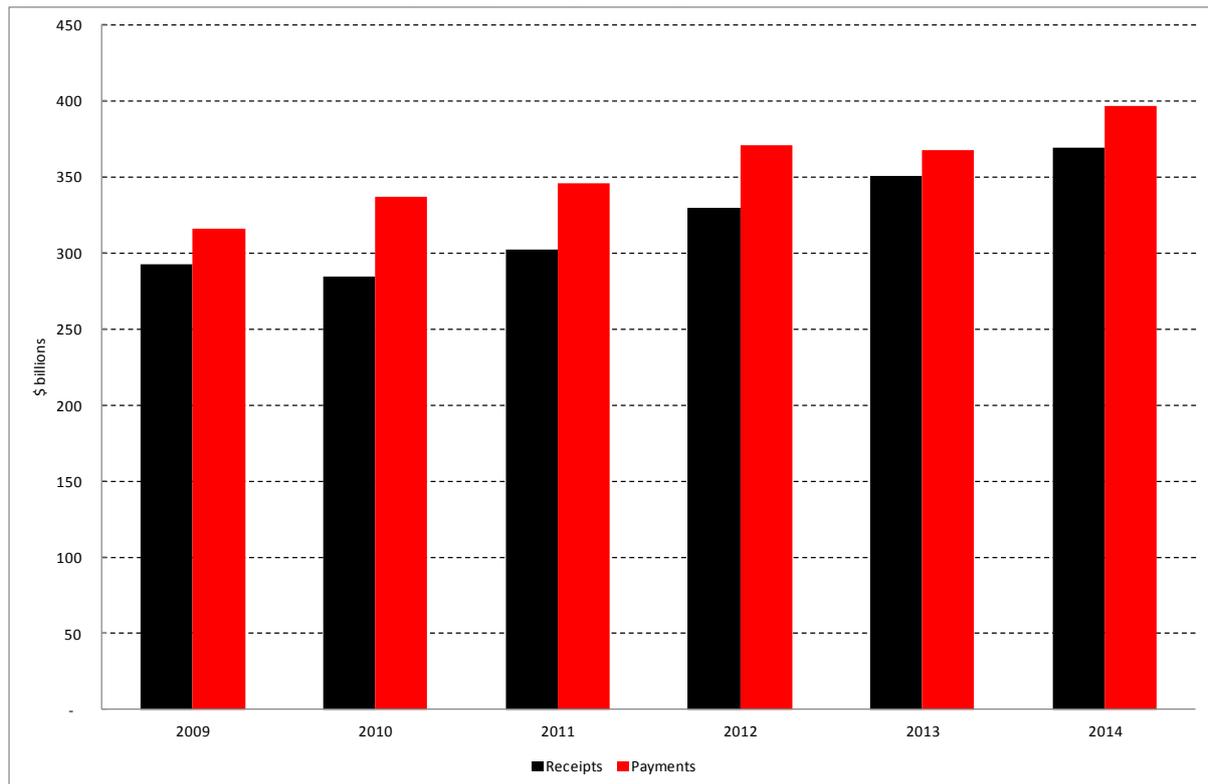
Source: Commonwealth of Australia, 2013, *Economic Statement*; Department of the Treasury, 2013, *Pre-Election Fiscal and Economic Outlook*.

At the time of the 2013 Pre-Election Fiscal and Economic Outlook (PEFO), it was estimated that the commonwealth would accumulate a budget deficit (cash basis) to the tune of \$30 billion (or about two per cent of GDP), the latest in a string of persistent, multi-year budget deficits recorded in recent years.²

Contrasting the claims of the previous government that the deficits were the product of continuously declining revenue inflows, the Treasury's own financial data conceded the Rudd-Gillard government engaged in over-spending, compromising the integrity of Australian public finances (Figure 2).

² Commonwealth of Australia, 2013, *Pre-Election Economic and Fiscal Outlook 2013*, p. 1.

Figure 2: No revenue write down, but spending write up



Source: Commonwealth of Australia, 2013, *Economic Statement*; Department of the Treasury, 2013, *Pre-Election Fiscal and Economic Outlook*.

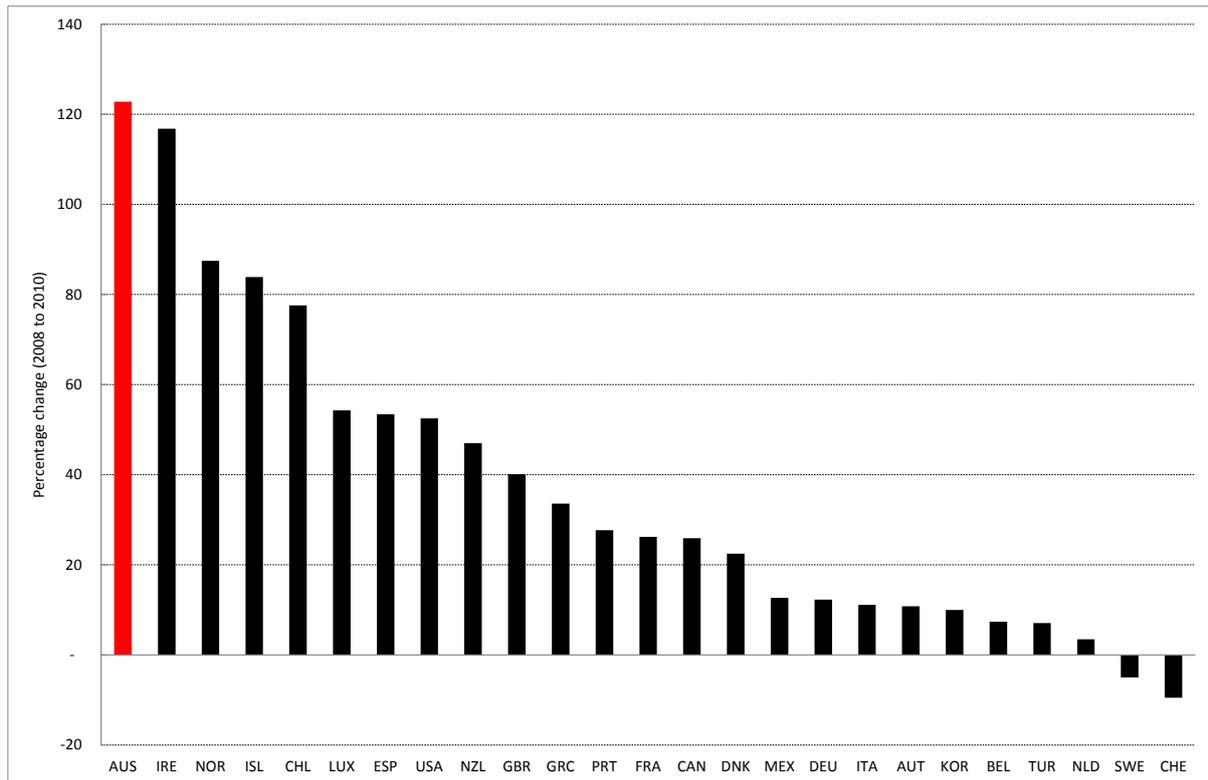
Strong growth in spending commitments not only reflected the significant growth in outlays for existing programs, for example in education, health care and welfare. Expenditure growth was also influenced by deliberate policy decisions to extend the scope of government, and to dilute the importance of civil society in Australian economic and social affairs.

Elements of the explicit ‘big government’ agenda of the former Rudd-Gillard administration included new forays into broadband infrastructure, climate change, dental care, national security and parental leave, to name a few. To manage the ratcheted spending numerous new government agencies, commissions and other entities were created, as outlined in [Appendix A](#).

The former government also built it prospective new forms of structural spending, such as the National Disability Insurance Scheme (NDIS), which will impose substantial fiscal pressures in coming decades as the national population ages.

Expenditure growth consistently exceeding revenue growth directly contributed to budgetary pressures, which spilled over in the form of rapidly growing debt burdens. Not only did the commonwealth once again incur liabilities that exceeded the value of its liquid assets, but as illustrated in Figure 3 gross debt in Australia had been growing at the fastest rate throughout the developed world.

Figure 3: Australia the public debt frontrunner



Growth in central government debt, as a proportion of GDP, from 2008 to 2010.

Source: OECD, Statistical Database.

Growth in commonwealth general government expenditures has also facilitated the centralisation of fiscal activities in Australia, entailing the weakening of the states' effective policy autonomy. This is due to the allocation of significant levels of federal spending to states, and their local government authorities, through unconditional and, increasingly, conditional grants.

Following the Howard government's centralising forays into areas such as schooling, industrial relations and vocational education, among others, the Rudd and Gillard governments continued the effective takeover of states' responsibilities, including through their abilities to impose conditions on grants funding. Examples included the development of a national curriculum and micro-managed school performance accountabilities, and, most notoriously, an attempted takeover of public hospital financial administration under the Rudd government.

An important instrument through which the previous government intervened in state government affairs was through a performance-related regime of grants known as 'National Partnership Payments.' These federal payments were conditional on the states achieving previously agreed policy outcomes in social services and other areas, implying the most extraordinary degree of intrusion into, and distortions of, state policymaking and service delivery standards.

Reducing the size and scope of the commonwealth government will come with its political challenges, including the potential for highly charged, emotional responses from vested interest groups opposing changes to the *status quo*. However, it is imperative that the public sector lives

within its means, if Australians are to enjoy continued improvements in living standards in the decades to come.

Accordingly, this paper seeks to identify reforms to right-size the commonwealth government, including through the realignment of commonwealth-state relations, to deliver efficient and effective government into the future. This paper aims to outline ways to address Australia's budget emergency, without recourse to new taxation or to radical constitutional change.

2 Framework for analysis

The present state of public finances, characterised by deep structural deficits and burgeoning debts, suggests the commonwealth government has simply become too large and unaffordable. In no small part, this outcome is the product of longstanding political attempts to satisfy endless political demands for fiscal and regulatory favours, often made at the expense of others.

The commonwealth government today finances and provides a wide variety of goods and services, including the national defence of life and property from external aggression, the financing of lower-level government activities in education, health, transportation and other fields, and redistributive 'welfare state' transfers from politically deemed undeserving to politically deserving individuals and groups.

Most economists agree that financing and providing a limited suite of 'public goods,' which possess technical attributes such that the cost of preventing non-payers from the output is prohibitive and that individuals can partake in simultaneous consumption, is an essential function for government.

The finance and provision of a national defence is often regarded as a canonical example of a 'pure' public good, or at least one that closely approximates the pure public good ideal of perfect non-excludability and non-rivalrous consumption. As a consequence of these attributes of defence, it is commonly agreed that the best way to provide a sufficient level of defence is to have government do it, and finance defence with compulsory taxes.³

In practice, however, most goods and services imperfectly exhibit the characteristics of the pure public good. Many outputs financed and provided by government, and which are perceived by the general public to be 'public goods' are not at all.

It is possible to ration the demand of people wishing to consume education or health care services through the imposition of user fees or charges; private sector operators can build, own and operate large infrastructures by using tolling technologies; non-government organisations can develop their own cultural and recreational facilities; and broadcasters can prevent non-subscribers from watching or listening to their programs by scrambling their broadcast frequencies.

³ Tyler Cowen, 'Public Goods', The Concise Encyclopedia of Economics, Library of Economics and Liberty, <http://www.econlib.org/library/Enc/PublicGoods.html>.

Modern governments have become heavily involved in the financing and provision of these non-public goods, chiefly because it is politically perceived as meritorious that all people should be able to access these outputs, irrespective of their ability to pay.

In addition to the obvious fiscal sustainability issues when governments attempt to finance and provide public *and* non-public goods, the case for government involvement in areas such as education, health, housing, recreation and transport should be weighed up against their many imperfections.

These include the erection of massive bureaucracies typically unresponsive to the divergent needs of individuals, the prospect of resources allocation informed by self-serving political interests, and the prospect of greater public sector involvement crowding out for-profit and not-for-profit non-government sector financing and provision solutions.

A significant element of the commonwealth government expenditure profile concerns the redistribution of cash and other resources, from politically-perceived 'undeserving' to 'deserving' individuals and groups, through the aegis of the 'welfare state.' Figure 4 illustrates that welfare state spending accounts for approximately 40 per cent of estimated government expenses for this financial year.

Figure 4: Welfare state expenses a big driver of federal spending

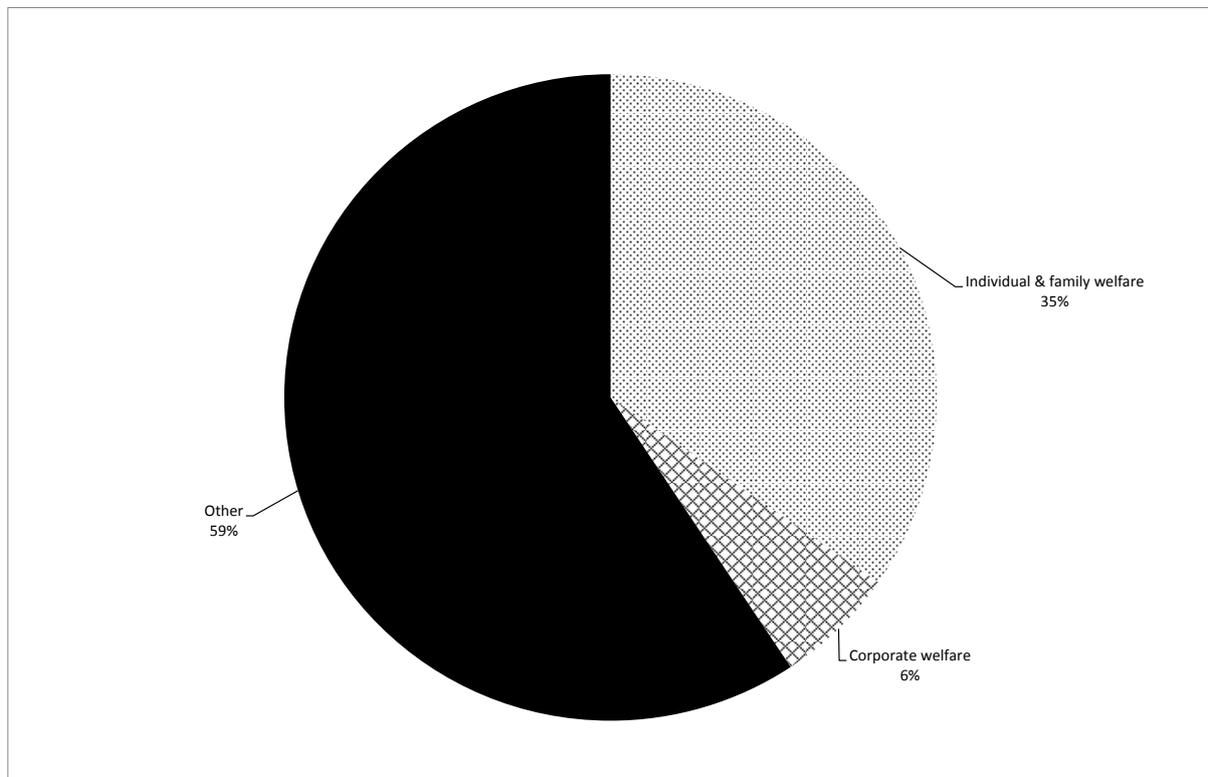


Figure refers to 2013-14 estimates. Social security and welfare expenditures referred to as 'individual and family welfare,' and economic affairs expenditures referred to as 'corporate welfare.'

Source: Commonwealth of Australia, 2013, *Budget Strategy and Outlook 2013-14*, Budget Paper No. 1.

The perpetuation of the welfare state has been associated with several deleterious consequences for economic activity, including the availability of subsidies encouraging the diversion of labour supply from productive uses, the dilution of entrepreneurial activities as suppliers seek eligibility for corporate welfare payments rather than seeking profits through serving customers, as well as the distortions associated with significant tax imposts to finance welfare state activities.

The commonwealth government also performs numerous regulatory (and some fiscal) activities designed to counter purported 'market failures,' that could transpire in the absence of government intervention. While it has been argued in some quarters that regulations serve as an imperfect substitute for taxation,⁴ nonetheless the administration of regulatory edicts are maintained by numerous commonwealth agencies funded by general taxation revenue.

Whereas regulations are invariably designed and implemented to fulfil some policy objective, there has long been a debate as to whether the benefits of regulatory enactments are exceeded by their costs. In addition to the administrative compliance costs associated with paperwork and record keeping, the costs of regulation may also include capital modification and skills training expenses as well as costs accompanying delays by governments when consummating regulatory decisions.

The potential dynamic costs of regulation are likely to vastly exceed the administrative compliance costs. Regulations tend to force entrepreneurs to pursue alternative lines of production otherwise not selected, altering incentives affecting the process of production and the composition of consumption.⁵ To the extent that market failures provide a motivation for the exercise of entrepreneurship in the competitive search for unexploited economic gains, the imposition of regulations could stifle the creation of economic value, in some circumstances, altogether.

Overly prescriptive regulations may also prevent consumers from deriving economic gains, or 'consumer surpluses,' from the consumption of certain goods or services. For example, regulations pertaining to so-called 'sin goods,' such as alcohol, calorie-dense foods or tobacco, are often introduced for the stated policy purpose of promoting healthy lifestyles, but invariably have the effect of depriving consumers, particularly from poorer backgrounds, from making inexpensive choices.

Another factor when considering the appropriate size and scope of the commonwealth government is the explicitly federalist design of Australia's governmental structures.

The Australian Constitution was clearly designed with the intention of according the commonwealth only a few enumerated powers - most notably defence, interstate commerce, and external affairs - with the vast bulk of political authority reserved for the states. In this sense, the Founding Fathers of the Constitution not only intended for a division of powers between the commonwealth and the states, but sought a decentralist bias in the allocation of governmental responsibilities.

⁴ Geoffrey Brennan and Hartmut Kliemt, 2008, 'Regulation and revenue', *Constitutional Political Economy* 19 (3): 249-260.

⁵ Bruce L Benson, 2004, 'Opportunities Forgone: The Unmeasurable Costs of Regulation', *Journal of Private Enterprise* 19 (2): 1-25.

The key advantage of such arrangements is that the financing and provision of governmental outputs could be subjected to some degree of quasi-competitive testing, in addition to policy approval or disapproval ordinarily expressed through the voting process. Specifically, capital and labour could move across state borders should public sector goods and services, and the taxes used to finance them, in a jurisdiction prove to be unsatisfactory in some manner.

A process of 'yardstick' competition could also prevail in a highly functional federal system, as voters could make comparisons of varying state configurations of taxes and services, and impress upon politicians in their home jurisdiction to make improvements similar to those of the best-practice rival jurisdictions.

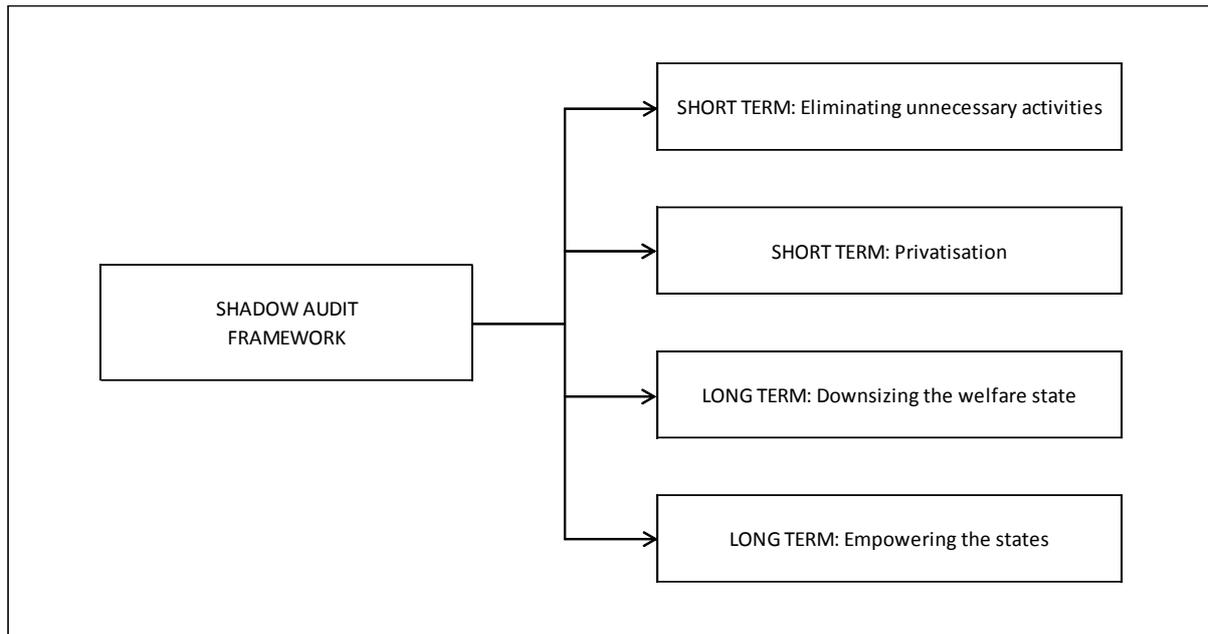
As implied previously, modern Australia more approximately resembles a unitary nation, than a genuinely competitive federal one, as a result of the gradually increasing infiltration of the commonwealth government in state-local policy affairs. That is to say, the full benefits of tax-service comparison, policy experimentation and public accountability have been withheld from the Australian people, as a result of our increasingly dysfunctional federal arrangements.

It is especially important to note that while the commonwealth keenly intervenes in policy and service standards of the states, in an arms-length fashion, to this day it does not, in itself, play a major role in the direct provision of services.

Apart from defence, immigration and some welfare services, the commonwealth does not own or operate schools, hospitals or major transport facilities used frequently by Australians. Nonetheless, there is a great deal of regulatory and administrative duplication and overlap, as the commonwealth maintains large departments and agencies mainly tasked with the role of monitoring state-local grants arrangements, or exploiting the 'power of the purse' to intervene in the states' fields of policy.

Informed by the conceptual framework outlined above, the following sections provide a range of suggestions to align the modern commonwealth government more closely with its constitutional roots, providing a greater focus upon core functions. The framework used to determine appropriate reforms to pursue is outlined in Figure 5.

Figure 5: The framework informing the Shadow Audit



3 Reducing the costs of federal government by eliminating unnecessary activities

For various reasons as outlined above, it is likely that most public sector activities would obstruct, to some extent, the creation of economic value by the private sector. This arises from the costs to business and individuals in responding to them, the diversion of resources to accommodate their requirements, and the effect of them in displacing commercial activities where such activities perform useful tasks.⁶

It should also be recognised that many government initiatives in existence today are the product of entitlements and claims on the government imposed in past periods, and so programs, if left unchanged, become outdated as a consequence of changing economic and social circumstances.⁷ This induces some risk that outmoded governmental programs and activities will impose excessive costs, and other burdens, upon economic agents.

In Appendix B, a selective listing is provided of suggested programs and activities that the commonwealth government should consider for abolition. Over the four years to 2016-17 it is estimated that the total expenditure savings presented in this paper amount to about \$99 billion, with estimated savings of about \$22 billion in 2013-14 alone.⁸

The commonwealth government should direct much of its reform energies toward the abolition of climate change programs, which tend to be strewn over numerous departments. The budgetary

⁶ Alan Moran, 2013, 'Programs identified with negative benefits', Institute of Public Affairs, <http://www.ipa.org.au/publications/2179/commonwealth-reform-negative-value-adding-components>.

⁷ Vito Tanzi, 2005, 'The Economic Role of the State in the 21st Century', *The Cato Journal* 25 (3): 617-638.

⁸ The estimates presented in this paper do not include anticipated budgetary costs of public sector redundancies associated with the elimination of programs.

savings that could be rendered by the abolition of these initiatives are estimated to be in the order of \$5.6 billion in 2013-14, and \$22.9 billion over four years.⁹

It is highly likely that climate change programs are dampening the potential of the private sector to generate economic value. Governments are actively supporting, through subsidies and loans, the development of renewable technologies, including solar and wind generators, which presently produce electricity at costs well in excess of conventional, coal-fired electricity generation, or even gas generators.

In addition, the subsidisation of renewable technologies, and other activities designed to suppress carbon dioxide emissions, are unlikely to ameliorate the effect of anthropogenic global warming in any meaningful way, particularly in the absence of similar policy actions by other countries.

The effective abolition of the Industry Department (aside from statutory bodies such as ANSTO and IP Australia) represents another significant component of the overall suite of expenditure savings for the commonwealth to consider, with estimated savings of about \$10 billion over four years.

Aside from the obvious limitations upon the capacity of politicians and bureaucrats to anticipate what kinds of economic activities are likely to generate economic value within their jurisdiction, the provision of corporate welfare to selected industries contributes to the perpetuation of inefficient activities, particularly in mass manufacturing which could be more profitably undertaken elsewhere.

These outcomes are clearly evident in the case of the Australian automotive industry, which has received substantial federal and state subsidies over many years but has continued to manufacture vehicles whose demand has been superseded by cheaper imports.

Further, the continuing provision of assistance to carmakers is preventing the necessary structural adjustments which need to occur within the manufacturing sector, which would enable capital, labour and other resources to more freely be reallocated toward higher valued uses.

More generally, the provision of corporate welfare detracts policy attention from what is needed to facilitate a market-friendly economic climate, suitable for the growth prospects of all firms in all industries.

Other potentially significant sources of savings may be found within the Agriculture, Communications, Foreign Affairs, Infrastructure and Regional Development, Social Services and Treasury portfolios.

With commonwealth public finances projected to remain in a parlous condition for some years, it is appropriate that the government give due consideration to across-the-board spending reductions across all portfolios, as part of the overall savings task.

⁹ Whilst outside the scope of this paper, it would also be recommended that taxation and regulatory climate change initiatives, such as the carbon tax (including personal and business price compensation) and the Renewable Energy Target also be abolished.

It is proposed that a 'Budget Emergency Contribution' (BEC) of, say, five per cent per annum, be enacted across all general government sector portfolios over the forward estimates. Based on budget aggregates presented in the Pre-Election Fiscal and Economic Outlook statement, it is estimated that the BEC would deliver savings in the order of \$19 billion in 2013-14, and \$80 billion over the forward estimates.¹⁰

4 Reducing the scope of federal government through privatisation

For much of the twentieth century governments in the Western world, including Australia, maintained numerous public sector entities providing a widespread array of goods and services to individuals. These entities, whose operations were primarily financed by output sales revenues but typically backed by (explicit or implicit) government guarantees to cover financial losses, have been generally known as 'government trading enterprises' (GTEs).

In recent decades there had been a growing recognition of the limitations associated with extensive public sector ownership and management of assets and resources, including the view that many GTEs had become inefficient and their activities poorly performed. Several reasons were put forward for this change in perception about the operations of the GTE sector:

- GTE managers are invariably faced with multiple and often conflicting economic, social and other objectives, and were susceptible to undue political influence.
- Even for GTEs with explicit and clear objectives to promote economic value, the absence of financial discipline exerted by profit and loss mechanisms often ensures a poor alignment between the performance of managers and the achievement of the objectives.
- Unlike in the private sector, GTEs which fail to provide sufficient value for their customers are not exposed to bankruptcy or the threat of a hostile takeover.

A common response to the problem of GTE performance has been to engage in the process of 'privatisation,' typically defined as the transfer of ownership rights (though not necessarily control rights) in a GTE to the private sector. Within this, privatisation has been commonly conducted through either the public issuing of equity in the privatised entity, or through trade sales of the privatised entity to another enterprise.

An overriding concern of many privatisation episodes has been the need to improve the efficiency of the activities of the privatised entity, by exposing it to the rigours of market discipline and insulating it from political pressures. In many instances privatisation has been conducted in tandem with restructuring, with monopolistic elements of the privatised entity broken down into separate entities to facilitate greater market scrutiny.

Another benefit claimed by supporters of reform is the potential for privatisation for deepening financial markets, especially in the case of selling an entity through the issuance of shares. This strategy may also be compatible with political objectives to ameliorate the unpopularity of

¹⁰ These figures are in addition to the discretionary expenditure savings outlined in [Appendix A](#).

privatisation initiatives by promoting a shareholder culture within society. It is also suggested that share markets can more effectively hold management accountable by the threat of financial failure, or through takeover bids.

Finally, the rationale for privatisation has often been grounded in the desire of governments to raise additional revenue, to either expend on other activities or to reduce existing debts. While governments may no longer receive direct transfer payments or tax equivalents from GTEs to finance their recurrent expenditure activities, the privatisation of assets can also provide 'fiscal room' in the form of lower capital spending requirements into the future.

From the late 1980s until the mid-2000s, successive governments have been actively involved in privatising their assets, including in the aviation, financial, infrastructure, scientific and telecommunications sectors. This process has been, by and large, a successful one, not only assisting governments to achieve a range of short term financial objectives, but deepening private markets for the longer term.

Whilst a range of financially lucrative public sector assets and entities have been privatised in the past, there remains scope for the commonwealth to sell additional assets. [Appendix C](#) provides a list of entities, many of which are situated outside of the general government sector, which should be considered for future privatisation.

There are significant opportunities for the government to sell various assets within the communications portfolio, including the ABC and SBS.

Australia's free-to-air television networks able to generate revenues through advertising, and there has been trend growth in the number of subscribers to subscription television (especially Foxtel). Therefore, the traditional public good rationales for government financing and provision of broadcasting – that it is impossible to exclude non-payers from receiving television broadcasts - have been undermined by subsequent market and technological developments.

In addition, the national radio frequency spectrum is presently populated by an array of private and not-for-profit radio stations, again undermining the need for the continuing existence of state-owned media in this regard.¹¹

A number of commentators have argued that the leftist ideological biases expressed by the ABC and SBS should be directly exposed to market tests, through the use of privatisation.¹² While it may be so that these state-owned media outlets tend to propagate messages hostile towards market capitalism and traditional Judeo-Christian values, another argument for privatisation is that the government-funded ABC and SBS directly compete with other networks especially in the provision of

¹¹ As an aside, the ability to auction radio frequency spectrum to bidding private and other non-governmental consortia is one reason underlying the proposal, outlined in this paper, to abolish the Australian Communications and Media Authority (ACMA).

¹² Tom Switzer, 2013, 'Why the ABC Should Be Privatised', *Quadrant* 57 (5): 20-24.

current affairs and political analysis.¹³ Privatisation would thereby ensure that public affairs coverage would be conducted on a more level-playing field.

Another GTE within the communications portfolio, Australia Post, should also be considered for sale to the private sector. With the parcels delivery service of Australia Post attaining consistent returns, due in part to the growth in popularity of online shopping, and with a cohesive infrastructure network and systems for delivering parcels already in place, there seems little doubt that the parcels element of Australia Post could prove to be an attractive proposition for prospective buyers.

There may be some complicating factors that could partially dilute the overall value proposition of Australia Post. The letters delivery service, on small items less than 250 grams in weight, has continued to incur financial losses, as people conduct more of their daily communications through email, mobile phones and the internet.

Several reform options in the letters segment of Australia Post's current operations could reduce the extent of losses, at least in the short to medium term. The government could elect to sell only the parcels segment, leaving public sector ownership of the letters business. That being the case, the government could eliminate Australia Post's monopoly on letter deliveries and outsource this segment.

To induce prospective private sector bidders in the management of letter deliveries, the terms of the current 'community service obligation' could be relaxed, for example requiring letters to be delivered two three times per week (rather than each weekday).

That said, a case could be made for Australia Post, nonetheless, to be sold as one 'bundle,' with both letters and parcels delivery aspects retained for prospective sale.

Apart from advertising mail distributed to various letterboxes around the country, the private sector has been deprived of the opportunity, at least in the modern era, to innovate and improve the management of small-letter deliveries. There may even be opportunities for the private sector to encourage people to send more letters, including during Christmas, Valentine's Day, or other occasions.

It is notable that the British Royal Mail was recently privatised, with the sale process encompassing both the loss-making letters segment and profit-making parcels business. With about 700,000 people applying for shares in Royal Mail, the initial share issue was oversubscribed with more than seven times the applications for shares than what was available to the public.¹⁴

Whereas the geographic circumstances of Australia and the United Kingdom vary significantly, the essential lesson of the successful Royal Mail privatisation is that prospective purchasers would be

¹³ James Paterson, 2010, 'The ABC is great: we should privatise it', ABC Drum Online, <http://www.abc.net.au/unleashed/29984.html>.

¹⁴ Eamonn Butler, 2013, 'Royal Mail privatisation shares not too cheap', Adam Smith Institute blog, <http://www.adamsmith.org/blog/economics/royal-mail-privatisation-shares-not-too-cheap>.

willing to acquire a privatised postal services entity, with both letters and parcels operations simultaneously subject to the sale.

To reduce fiscal pressures on the budget, and encourage greater private sector participation in infrastructure developments, the commonwealth government should also consider divesting some of its more significant capital holdings.

Recent reports have suggested the Abbott government is considering the sale of the Australian Rail Track Corporation, which owns 8,500 kilometres of rail track in the eastern states, South Australia and Western Australia. While acknowledging that some publicly-owned rail assets remain unprofitable, an assessment by Infrastructure Australia in 2012 stated:

‘residual government owned rail assets are often linked to commodity supply chains or operate in the freight industry, competing with trucks. They are likely to be operated more efficiently by the private sector. Further private sector ownership is likely to enhance competitive neutrality in these sectors.’¹⁵

During the last term of the Howard government, a proposal to privatise the Snowy Mountains Hydro-Electric Scheme was actively considered in conjunction with the NSW and Victorian governments. However, in the face of a public campaign opposing the privatisation of the Scheme, the proposal did not proceed.

There is little reason for the initial proposal to privatise Snowy Hydro to not be revisited. The Victorian and South Australian reform experiences demonstrably illustrate that management of electricity assets can be effectively and efficiently managed by the private sector and, in any case, governments are limited in their capacities to inject additional funds that would upgrade and modernise Hydro assets.

The commonwealth also maintains an extensive portfolio of housing assets, through its ownership of Defence Housing Australia (DHA). It has been estimated that DHA manages 18,000 properties across Australia, valued at about \$10 billion, with about 65 per cent owned by private investors and leased back to the defence force.

With a vigorous market in real estate, and with past complaints by real estate industry participants that the operations of DHA may violate competitive neutrality principles,¹⁶ there seems little rationale for government to retain this organisation.

Included in the list of candidate entities for privatisation include Medibank Private, which has already been slated by the Abbott government for sale.

¹⁵ Infrastructure Australia, 2012, *Australia's Public Infrastructure: Part of the Answer to Removing the Infrastructure Deficit*, p. 28.

¹⁶ Australian Government Competitive Neutrality Complaints Office, 2008, *Defence Housing Authority – Investigation Report No. 13*. Despite Real Estate Institute of Australia suggestions that effectively acts as a real estate agent, by virtue of its sale and lease back arrangements, the AGCNCO found that DHA did not gain a regulatory advantage as a consequence of being owned by government.

Based on previous industry estimates and analysis by the IPA, it is estimated that the privatisation of the aforementioned entities would provide sales revenue to the commonwealth of between \$31 billion and \$38 billion.

While direct trade sales of these assets to prospective buyers would be appropriate in some circumstances, the government should consider selling assets (for example, ABC, SBS or Australia Post) through the provision of initial share offerings to the public, thus encouraging greater share ownership of iconic assets.

Another consideration for government relates to the appropriation of revenues generated by the privatisation process. Whereas there are some suggestions that government should direct the proceeds of asset sales to additional infrastructure, it is recommended in this paper that the commonwealth should use all privatisation revenues to help reduce its debt obligations, thus ameliorating some additional tax pressures expected to be faced by future generations.

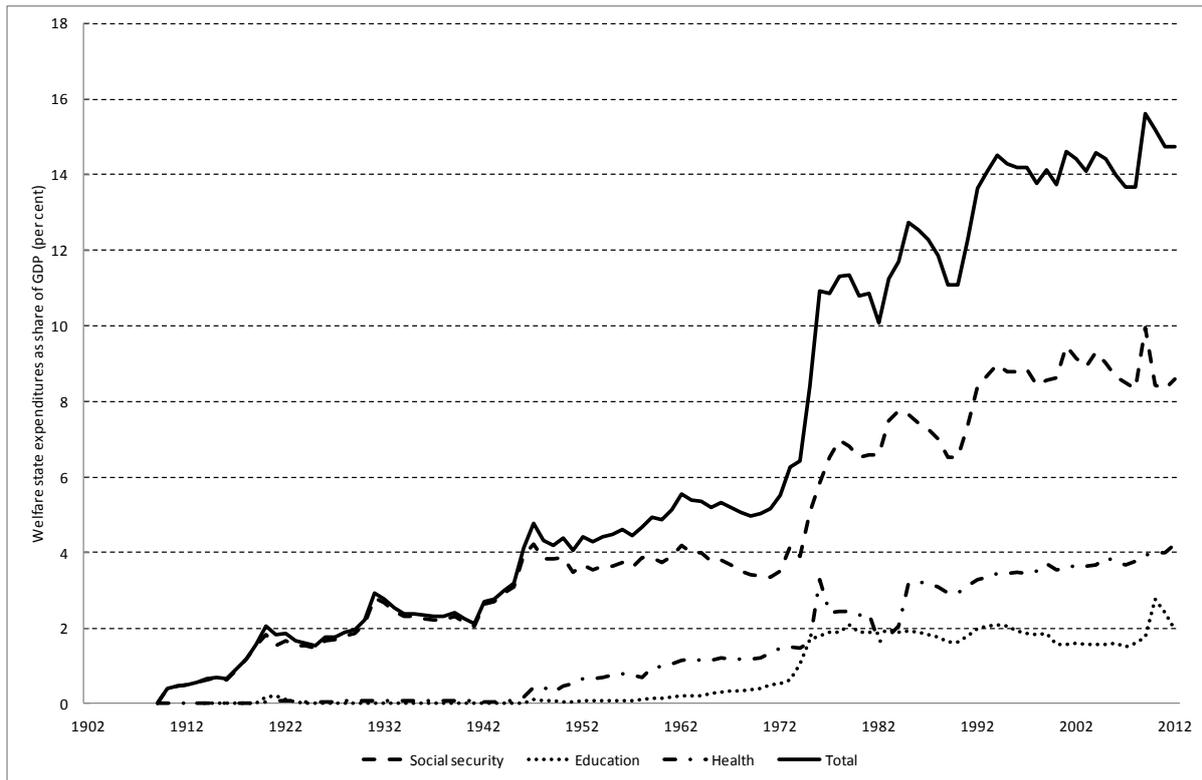
5 Reducing the scope of federal government by downsizing the welfare state

A reasonably consistent feature of public sector growth throughout the Western world over the past century has been the growing importance of redistributive activities within the overall governmental spending mix.

Figure 7 illustrates that from modest beginnings in the late 1900s and early 1910s, with the inception of a federal age pension and maternity allowance, the commonwealth government welfare state has grown dramatically over the past century, accounting for almost 15 per cent of national economic output today.

One of the more concerning features of the welfare state's fiscal trajectory is that expenditures had continued to grow, albeit more modestly compared to previous decades, during the many years of uninterrupted Australian economic growth from the early 1990s to 2007.

Figure 7: The welfare state our new leviathan

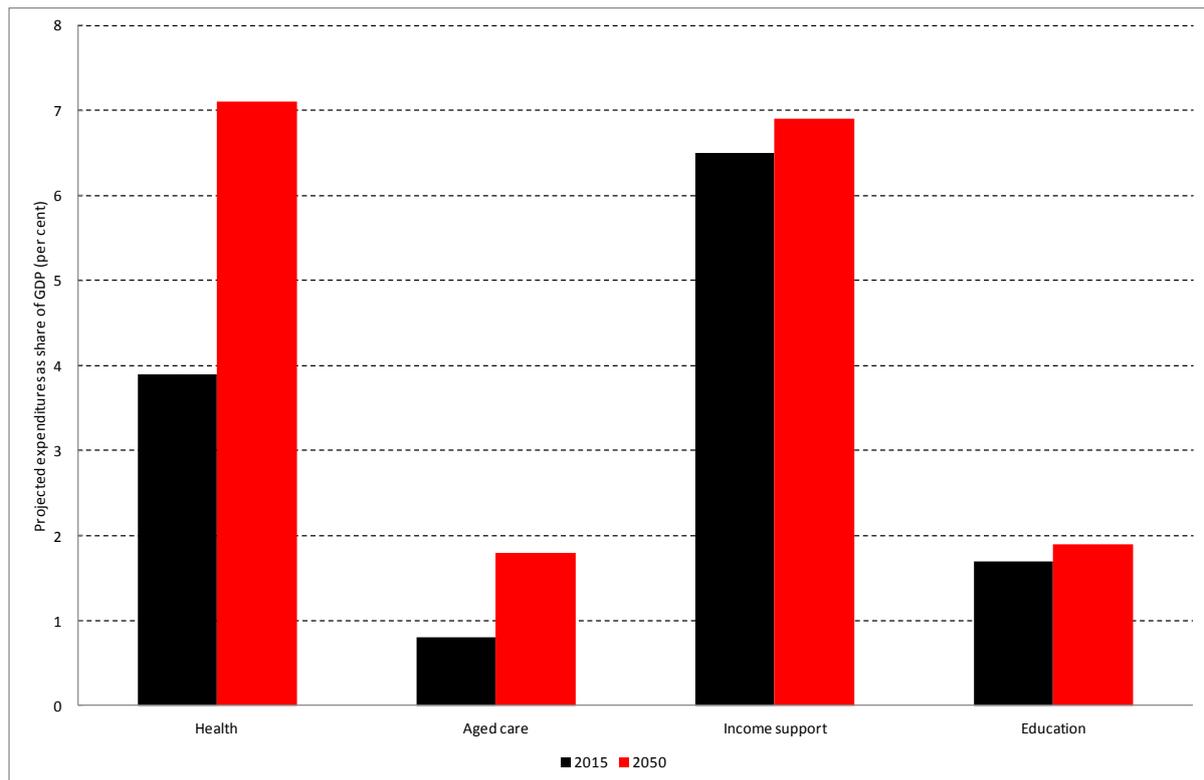


Excluding housing assistance subsidies and capital grants.

Source: ABS, Australian System of National Accounts; ABS, Government Finance Statistics, Australia; Julie Novak, 'The welfare state grows and grows', in Gary Johns, ed., *Right Social Justice: Better Ways to Help the Poor*.

Although Australia's welfare state has been widely lauded as a relatively parsimonious system, at least compared against the fiscally exorbitant continental European welfarist regimes, a combination of population ageing and political acquiescence to demands for more generous benefits is widely expected to lead to a welfare state posing substantially greater fiscal burdens on future generations (Figure 8).

Figure 8: Futureshock: Welfare state expected to grow as the population ages



Figures do not include effects of policy decisions undertaken since 2010.

Source: Department of the Treasury, 2010, *Australia to 2050: Future Challenges*.

If anything, the 2010 Intergenerational Report is likely to underestimate the likely long term burdens of the welfare state, since it does not take into account subsequent policy decisions, or announcements, which have extended the scope of income support and other subsidies. These include the proposal for a NDIS, paid parental leave, and increasing government funding for schools.

Accordingly, no Commission of Audit process charged with proposing solutions to restrain the size and scope of the commonwealth government can ignore the need for long term, systemic reforms to the welfare state.

To set the policy tone for significant structural reform, it is suggested that the commonwealth consider a range of interim measures to restrain the projected increases in welfare expenditure in the longer term:

- Adjusting the indexation of Age Pension, Disability Support Pension and other pensions to the consumer price index.
- Progressively and more quickly raising the eligibility age for the Age Pension.
- Introduction of strict time limits, say one year, for the duration of receipt of Newstart Allowance.
- Means testing arrangements should be extended in several ways, such as: inclusion of the family home in Age Pension assets test; means testing of Child Care Rebate and Medicare; and enabling individual government schools and hospitals the flexibility of directly charging fees for wealthy students and patients, respectively.

- Tighten work tests for Disability Support Pension recipients with a capacity to work, including people disengaged from workforce activities with musculoskeletal complaints.
- Introducing or increasing co-payments for various medical services, for example those provided under the Medical Benefits Schedule and Pharmaceutical Benefits Scheme, and other services.
- Winding back family payments, including the short term abolition of Family Tax Benefit Part B, and the cessation of paid parental leave subsidies enabling businesses to compete for labour with their own paid leave arrangements.
- Reduce the extent to which income support recipients can simultaneously access multiple forms of payments.

The prospective introduction of the NDIS is likely to pose as a significant threat to future budget sustainability, given the increasing incidence of people with disabilities within the Australian population.

To head off the looming fiscal burdens of the NDIS, the commonwealth should ideally not proceed with the proposal, encouraging the states, with traditional constitutional responsibilities in this field, to maintain, and in some instances introduce, personalised care provision models specifically directed to the needs of the disabled person.

However, with exceedingly high expectations by members of the community with disabilities for federal intervention, there seems little prospect of the commonwealth aborting the NDIS. An imposing challenge would, therefore, be presented for future governments to reconcile likely strong demands for services with the need to retain economy in the budgeting of the scheme.

Ultimately, in the longer term, the key to restraining the welfare state will be for the government to withdraw from the financing and provision of redistributive subsidies, and privatising a range of merit goods such as schools, hospitals and government housing. Some necessary ingredients for this state of affairs to arise will need to incorporate the following reform elements:

- cultural and political dedication to strong, robust economic growth, primarily directed by the market sector
- development of a vigorous private savings culture as a key means for individuals and families to achieve dignity through self reliance, assisted by tax systems unbiased against savings and widespread financial and economic deregulation
- encouragement of the development of strong private insurance markets providing various products enabling people to hedge against income fluctuations
- deregulation of markets enabling new providers of education, health and housing services to offer new products at lower costs
- an economic and social environment conducive to the development of mutual aid or friendly societies, assisting people during difficult personal and financial circumstances, and diversified local charitable organisations
- encouragement of acts of philanthropy by businesses and high-wealth individuals.

Whilst outside the scope of this paper, the implied substantial reduction in commonwealth expenditures implied by these proposals would enable future governments to significantly reduce the federal taxation burden, which in turn would induce growth and productivity enabling low income earners to grasp abundant new economic opportunities.

6 Reducing the scope of federal government by empowering the states

Over a long period of time, the commonwealth has accumulated expenditure, regulation and taxation responsibilities which do not align well with its original constitutional responsibilities. Consistent with their wide array of responsibilities prior to Federation, the Constitution was developed on the understanding that the states would largely maintain their colonial-era functions, including in agriculture, education, environment, health, infrastructure, regional development, and social services.

While there has been a subsequent, albeit limited, extension of the commonwealth's constitutional powers, most notably through the 1946 social services referendum, Australians have consistently demonstrated a general reluctance to accord the commonwealth additional responsibilities under the Constitution.

However, a variety of historical and legal factors, including two World Wars and High Court cases, had progressively provided the commonwealth with relatively greater financial powers within the Australian federal system, and thus a growing policy influence over the states.

Political competition between parties across the levels of government, in which politicians would strive to enter different policy fields regardless of constitutional jurisdiction, also played a key role in the resulting excessive size of Australian governments, as evidenced by extensive duplication and overlap of functions and roles across the commonwealth and state levels of government.

To ameliorate the federal budget emergency and to rationalise the structure of Australian federalism, the commonwealth should accept the need to reduce its scope of activities. As a longer term reform priority, the commonwealth should cede a host of its existing functions and activities to the states, for the purposes of their exclusive policy control.

The 1996 National Commission of Audit, commissioned by the Howard government and chaired by Robert Officer, made several recommendations to reduce duplication and overlap of commonwealth-state responsibilities. Many of these recommendations remain valid today, as they did almost two decades ago, for example:

- Responsibility for the delivery of health and health-related services should be transferred to the states, including administration, funding and service delivery of aged care, health promotion and health support services.
- In education, the states should be responsible for preschool, primary and secondary education.
- Most family services should be transferred to the states, and the commonwealth should withdraw operational subsidies from publicly funded child care centres to ensure competitive neutrality.

- Either all responsibility for housing should be passed onto the state governments, or the commonwealth's responsibility should be confined to rent assistance and other assistance for those on income support subsidies.
- It is presumed that responsibility for environmental protection, landcare, endangered species recovery and world heritage obligations should reside with the states.
- Regional development initiatives and financial support for local governments should be the responsibility of the states.¹⁷

As mentioned previously, over the decade at least the commonwealth has progressively intruded into states' traditional policy affairs, in fields including education, environment, health care and workplace relations. These developments would suggest that the functions and activities that the commonwealth be required to cede to the states are more extensive today, in terms of their coverage, than those envisaged by the 1996 Audit Commission. Hence, a broader model of rationalising responsibilities within the Australian federation could entail the intergovernmental assignment of the following roles and responsibilities:

- Agriculture - all activities, except functions undertaken by Biosecurity Australia, and those pertaining to management of international commodity agreements and offshore fisheries.
- Education - all activities, including funding and policy roles pertaining to schools, vocational education and tertiary education providers, as well as child care policy support.
- Employment – all workplace relations functions and activities, including those pertaining to the regulation of private sector workplace relations, should be returned to the states.
- Environment - all activities, except administration of offshore territories and international obligations.
- Health - all activities, excluding payments under the Medical Benefits Schedule and private health insurance rebate, and pharmaceutical benefits.
- Infrastructure and Regional Development - all activities, except for safety activities with regard to aviation, maritime and rail travel, and the management of external territories. The commonwealth should maintain infrastructure funding commitments already in place, or previously announced, but not finance or commit to new projects.
- Social Services – the following responsibilities should be transferred to the states: services for families with children (including early intervention services); services for older people; community support and family services; housing affordability; mental health policies; and not-for-profit sector.

Assuming a transitional period for the transfer of responsibilities, it is conservatively estimated that transferring commonwealth activities to the states would entail a reduction in federal spending of about 31 per cent in 2015-16 and 2016-17, or an estimated \$187 billion over the two years. The federal government may be able to claw back some funding by abolishing conditional state-local grants, which are associated with the activities to be transferred.

With the states presently undertaking many of the functions and activities in these nominated areas, jurisdictions should reserve the right of amalgamating former federal functions and staff into their

¹⁷ National Commission of Audit, 1996, Report to the Commonwealth Government, AGPS, Canberra.

existing bureaucracies, or not continue the former federal activities. Indeed, there is an argument for the states not persisting with several of the activities subject to transfer, given that the outputs provided in the nominated fields are primarily merit goods, or some other form of good or service that can be readily provided by the private sector.

Nonetheless, to account for the increasing fiscal burdens placed upon the states as a result of resuming exclusive jurisdiction over several fields of their constitutional responsibilities, longer term realignment of the Australian taxation structure is also necessary.

Although the administrative and policy machinery of personal income taxation has remained with the commonwealth since 1942, there remains a compelling argument for the commonwealth to return to pre-World War Two arrangements by returning income taxing powers to the states.¹⁸

In other mature federations the systems of income tax decentralisation that exist may be categorised as follows:

- full income tax decentralisation, with state and/or local government freedom to set own rates and bases and with their own administration
- partial income tax decentralisation, with a common base and administration, and possibly some restrictions on state/local freedom to set their own rates
- income tax revenue sharing, with a uniform national rate and base but state/local receipt of income tax revenue based on collections within their own jurisdictions
- income tax revenue sharing based on national collections.¹⁹

Ideally, the best long term approach would be for the states to regain exclusive control over the income taxation system, in which each state would determine its own taxing base (including rebates and other credits) and design its own rate structure. This would ensure that governments become more sensitive to factor and resource movements across jurisdictions, thus encouraging the states to maintain competitive income tax regimes with reasonably low rates and relatively flat rate structures.

In the interim the commonwealth should consider reduce its personal income tax by a certain amount, affording the state governments with some freedom to impose income tax rates on top of the existing commonwealth structure.

For the sake of argument, reducing federal personal income taxes by \$51 billion (or about 24 per cent of total personal income tax revenue) in 2016-17 would eliminate all conditional grants allocated to the states, and enable state governments to impose an income tax regime raising an equivalent amount.

¹⁸ This proposal excludes the return of income taxes on corporate incomes, fringe benefits, superannuation taxes, and other taxes on income.

¹⁹ Robert Carling, 2007, 'A state income tax for Australia?', Paper presented at Atax Personal Income Tax Reform Symposium.

Admittedly, gradually returning the income tax system to the states in the presence of an extensive welfare state is complicated, given the high effective marginal tax rates borne by some lower income earners. Over time these issue may be addressed by a substitution of non-government charitable and philanthropic activities for the governmental welfare state, and a policy commitment to reduce the extent of gradation within the income tax structure.

6 Conclusion

The current budget emergency afflicting the commonwealth is more than a fleeting episode informed by slowing revenue growth amidst recent weaker growth within the private sector. It is the manifestation of a lengthy period of largely uninhibited growth, in which the Canberra-based commonwealth government has grown from two per cent of GDP, at its inception, to 26 per cent today.

This paper presents a non-exhaustive menu of reductions in recurrent expenditures that could be enacted over the forward estimates period, to assist the government in overcoming the budget emergency bequeathed to it by the former administration.

Important priorities in this regard include the abolition of climate change funding activities and taxpayer support for corporate welfare. There are also opportunities to rationalise roles and responsibilities in the agriculture, education, and health portfolios, among others.

In addition, the government should consider the privatisation of several entities that not only provide sales revenues in the short term, but which assist market growth and productivity by ensuring a less direct role for government in capital and resources allocation.

As important as these more immediate efforts of budgetary repair will be, the absence of corrective policy action is likely to see budgetary pressures return in the longer term as redistributive expenditures grow, in the face of population ageing and other anticipated economic and social changes. Several options are presented to curtail, at least to some degree, the fiscal burdens associated with the growing welfare state, which should, in turn, promote greater economic and social self-reliance and responsibility.

Finally, it should be recognised that the progressive takeover of traditional state responsibilities has made a significant long term contribution to the growth of the commonwealth public sector. This paper advocates returning numerous functions and spending activities to the states, consistent with the assignment of powers as specified in the Australian constitution.

To assist states with the task of financing the breadth of extended responsibilities, it is suggested that the commonwealth government enables states and territories to impose their own personal income taxes. Given that most of the functional areas to be resumed by the states involve the financing and provision of merit, and other private-type, goods, jurisdictions may desirably elect that non-governmental entities play a much greater active role in the fields relinquished by the commonwealth.

The establishment of the 2013 Commission of Audit presents a rare opportunity for commissioners, and the Abbott government to which they ultimately report, to consider strategies for returning the national public finances to a state of relative normalcy.

To the extent that the government acts on recommendations to reduce the size and scope of government, the Audit would have contributed to the rarely witnessed alignment of short term policy action and long term economic interests, ensuring that Australians are afforded a greater latitude to forge new pathways for economic prosperity and social cohesion.

2007-2013: The era of federal bureaucratic growth

- Administrator of National Health Funding Pool
- Advisory Panel on the Economic Potential of Senior Australians
- Age Discrimination Commissioner
- Anti-Dumping Commission
- Anzac Centenary Advisory Board
- Asbestos Safety and Eradication Agency
- Australian Carbon Trust Board
- Australian Charities and Not-For-Profits Commission
- Australian Children's Education and Care Quality Authority
- Australian Curriculum, Assessment and Reporting Authority
- Australian Cyber Security Centre
- Australian Energy Market Operator
- Australian Institute for Teaching and School Leadership
- Australian National Preventive Health Agency
- Australian Small Business Commissioner
- Australian Solar Institute
- Australian Workforce and Productivity Agency
- Clean Energy Finance Corporation
- Clean Energy Regulator
- Climate Change Authority
- Climate Change Commission
- COAG Reform Council
- Coordinator General for Remote Indigenous Services
- Counter-Terrorism Control Centre
- Department of Climate Change and Energy Efficiency
- Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education
- Department of Regional Australia, Regional Development and Local Government
- Department of Resources, Energy and Tourism
- Department of Sustainability, Environment, Water, Population and Communities
- DisabilityCare Australia
- Enterprise Connect Innovation Centres
- Fair Work Australia
- Fair Work Ombudsman
- Global Carbon Capture and Storage Institute
- Health Workforce Australia
- Independent Hospital Pricing Authority
- Independent Inspector General of Animal Welfare and Live Animal Exports
- Independent National Security Legislation Monitor
- Infrastructure Australia
- Manufacturing Leaders Group
- Multi-Party Climate Change Committee
- National Border Targeting Centre
- National Children's Commissioner
- National Congress of Australia's First Peoples
- National Health and Hospitals Network
- National Health and Hospitals Reform Commission
- National Health Funding Body
- National Health Performance Authority
- National Heavy Vehicle Regulator
- National Integrity of Sports Unit
- National Live Music Office
- National Mental Health Commission
- National Offshore Petroleum, Minerals and Greenhouse Gas Storage Regulator
- National Portrait Gallery
- National Schools Assessment and Data Centre
- National Security Adviser
- National Vocational Education and Training Regulator (Australian Skills Quality Authority)
- NBN Co. Limited
- Office of the Co-ordinator General
- Office of the Fair Work Building Industry Inspectorate
- Office of the Fair Work Ombudsman
- Office of the Information Commissioner
- Office of National Security
- Office of Northern Australia
- Office of Work and Family
- Office for Housing
- Office for Remote Indigenous Housing Group
- Petrol Commissioner

- Prime Minister's Council on Homelessness
- Priority Industry Capability Centres of Excellence
- Regional Development Australia
- Safe Work Australia
- Small Business Advisory Committee
- Social Inclusion Unit
- Tertiary Education Quality Standards Agency
- USO Co. (Universal Service Obligation Co.)
- Workplace Gender Equality Agency

Reducing the running costs of federal government by eliminating unnecessary activities

Action	Reason	2013-14	2014-15	2015-16	2016-17	Total
Agriculture portfolio						
Abolish animal welfare strategy funding	Animal welfare a quintessential aspect of animal husbandry practice by farmers. Regulatory provisions by government tend to impose undue compliance costs upon industry.	1.0	1.0	1.1	1.1	4.2
Abolish climate change programs	No compelling evidence that agricultural and natural resources climate change programs dramatically reduce CO2 emissions.	109.6	87.1	75.7	63.7	336.0
Abolish drought assistance programs	Drought assistance perpetuates uneconomic farming practices, and relief for financial hardship may be provided by general welfare programs.	5.0	15.1	25.0	37.7	82.8
Abolish international market access funding	Lack of evidence that producers require government intervention to access markets, over and above protectionist barriers subject to international negotiations through DFAT and other departments.	39.5	40.3	41.8	42.1	163.8
Abolish R&D corporations	Viable R&D projects would be financed by agricultural industries directly. Also criticism that existing models do not appropriately cater for industry needs, and impose excessive levies.	294.1	293.1	293.4	271.2	1,151.7
Abolish rural structural adjustment programs	Structural adjustment assistance tends to be of a long term, rather than temporary, nature, encouraging dependency by industries upon continuous funding.	52.1	49.6	16.4	16.5	134.6
Abolish Wine Australia Corporation	Governments should not provide corporate welfare assistance to selected industries, distorting resources allocation.	13.4	11.4	11.4	11.5	47.7
Attorney-General's portfolio						
Abolish Australia Council for the Arts	Artistic pursuits should be funded directly by consumers of art products, and not by taxpayers through government.	223.0	227.3	230.1	231.7	912.1
Abolish Australian Human Rights Commission	Agency restricts freedom of expression, and imposes undue costs on business through frivolous discrimination claims.	25.5	24.4	24.4	24.6	98.9
Abolish Australian Law Reform Commission	Law reform advocacy should be directly financed by legal	2.9	2.9	2.9	3.0	11.7

	profession and other vested interests, and not by taxpayers.					
Abolish National Live Music Office	No compelling role for government involvement in policy advocacy on behalf of live music industry.	-	-	-	-	0.5
Abolish Screen Australia	There is no evidence of market failure in the domestic production of film and television programs.	113.7	115.4	105.1	104.7	438.9
Do not proceed with Anti-Dumping Commission	Anti-dumping measures deprive Australian consumers of cheap imported goods.	8.2	6.4	6.7	6.5	27.8
Eliminate departmental arts funding programs	There is no public goods rationale for government financing or provision of artistic pursuits.	234.0	261.6	231.9	258.1	985.6
Communications portfolio						
Abolish Australian Communications and Media Authority	Broadcasting codes threaten free speech. Current spectrum management tasks should be replaced with spectrum property rights.	93.6	89.2	87.3	88.4	358.5
Abolish NBN Co. ^(a)	Public sector development of broadband infrastructure crowds out private sector initiatives, and need for high-speed broadband remains doubtful on value adding grounds.	5.1	6.3	5.3	4.7	21.4
Abolish Telecommunications Universal Service Management Agency	Ongoing subsidies to regional and other telecommunications customers unnecessary, given incentive of private sector providers to deliver more accessible and cheaper services.	346.5	342.8	332.7	332.8	1,354.8
Cease departmental funding of broadband & communications infrastructure ^(b)	No market failure, or similar, rationale for governmental involvement in promoting broadband internet infrastructure deployment.	43.3	41.7	42.1	40.6	167.7
Do not proceed with enhancing online safety for children program*	Parental oversight of child online activity, and numerous software filtering packages, exist to protect children from online harms.	-	3.0	3.0	3.0	10.0
Eliminate digital economy funding	Private sector providers maintain incentives to realise full potential of digital economy, including promoting access to remote communities where viable.	96.0	88.8	62.7	62.2	309.7
Defence portfolio						
Abolish housing assistance for defence force members	Loans for house purchase and extensions readily available through the private sector.	94.4	104.0	112.1	119.0	429.5
Education portfolio						

Abolish Australian Curriculum, Reporting and Assessment Authority (ACARA)	Management of school curricula, reporting and assessment the responsibility of states and territories.	35.0	25.8	24.7	-	85.4
Abolish Australian Institute for Teaching and School Leadership	Responsibility for promoting teacher quality and school administrative leadership rests with the states.	14.8	15.4	-	-	30.2
Eliminate Office for Youth and youth support programs	There is no compelling case for government intervention in this area.	127.6	68.5	3.8	3.9	203.8
Abolish Tertiary Education Quality and Standards Agency	Responsibility for higher education regulation should remain with states, and stakeholders have referred to overzealous regulatory approaches of TEQSA.	20.4	21.3	21.8	22.1	88.5
Eliminate Trade Training Centres in Schools	Ample opportunities are provided by private sector training providers for vocational education programs for school-age children.	31.1	83.0	97.4	163.8	375.3
Employment portfolio						
Cease Centre for Workplace Leadership funding	There is no compelling role for government to directly facilitate higher performing workplaces in the private sector.	3.6	3.4	3.4	-	10.4
Do not proceed with jobseeker relocation allowances*	Abundance of low-cost travel options enable unemployed to relocate to more lucrative job locations.	1.0	5.0	21.0	48.0	75.0
Eliminate productive ageing package	No evidence of market failure in terms of preparedness of firms retaining mature age workers who provide valuable labour services.	3.0	1.9	1.9	-	6.8
Eliminate Remote Jobs and Communities Program	Funding for remote employment tends to provide for 'make work' projects of short duration and questionable value.	213.6	207.1	260.9	259.7	941.4
Eliminate Wage Connect funding ^(c)	Insufficient evidence that wage subsidies significantly reduce long term unemployment rates.	27.0	27.6	-	-	54.6
Environment portfolio						
Abolish Clean Energy Regulator	Climate change and renewable energy programs unduly increase electricity and other costs for businesses and households.	3,806.7	4,145.6	2,818.3	4,234.3	15,004.9
Abolish Climate Change Authority	Imposition of climate change regulations reduces national economic competitiveness.	8.7	8.8	8.9	9.2	35.6
Abolish Murray-Darling Basin Authority	State governments retain constitutional responsibility in water management, and may engage in cross-border agreements	198.6	141.7	149.3	163.3	652.8

	without recourse to commonwealth involvement.					
Abolish National Water Commission	Water management is the responsibility of the states and territories.	8.7	8.9	8.9	8.9	35.5
Do not proceed with proposed Emissions Reduction Fund ('Direct Action' policy)*	Direct action policy unlikely to achieve CO2 emissions reductions in efficient or effective manner.	-	300.0	500.0	750.0	1,550.0
Do not proceed with proposed 'Green Army' spending*	Environmental 'make work' programs are unlikely to provide job-relevant skills required for use in productive sectors of the economy.	1.0	47.0	96.0	157.0	300.0
Eliminate Carbon Pollution Reduction Land Sector initiatives	Climate change policies are unlikely to be effective in reducing CO2 emissions in cost-effective manner.	213.7	182.3	154.6	131.1	681.6
Eliminate commonwealth environment water funding	The states maintain constitutional responsibility for the management of water resources.	34.6	35.0	36.2	36.8	142.5
Eliminate other climate change programs (incl. Climate Commission)	Maintenance of climate change programs distort allocation of resources, and increase costs for businesses and families.	79.1	70.6	69.4	65.6	284.7
Eliminate sustainable communities program	State governments maintain responsibility for policies relevant to specific communities.	27.7	14.2	3.5	3.5	48.9
Eliminate water reform initiatives	This activity duplicates existing state involvement in water systems management.	333.1	448.8	855.7	594.7	2,232.3
Eliminate Working on Country program	Subsidies for indigenous groups to engage in 'make work' environmental remediation projects are unlikely to add value.	46.8	51.4	52.3	52.9	203.4
Withhold funding from Great Barrier Reef Foundation	Governments should not engage in the funding of organisations with prospective involvement in climate change activism.	3.1	3.1	3.1	3.1	12.5
Withhold grants from environment and sustainability organisations	Funding for political advocacy groups should be financed directly from supporters, not taxpayers.	1.3	1.3	1.3	1.3	5.4
Finance portfolio						
Withhold grants funding from NGOs	Taxpayers should not be forced to support projects undertaken by NGOs.	3.3	3.4	3.4	2.7	12.8
Foreign affairs and trade portfolio						
Abolish Australian Agency for International Development (AusAID) ^(d)	Programs fail to lift living standards in developing world, and do not sufficiently promote free markets and trade in beneficiary countries.	6,128.2	5,678.6	5,903.8	9,363.9	27,074.5

Abolish Australian Centre for International Agricultural Research	Agricultural research overseas should be funded by NGOs or private sector organisations, and not by taxpayers.	130.6	126.3	132.4	137.0	526.3
Abolish Australian Tourism Commission	Governments should desist from directing taxpayers' funds towards specific industries.	160.6	163.9	163.5	165.1	653.1
Abolish Australian Trade Commission (AUSTRADE) ^(e)	Export subsidies and investment attraction funding distort economic activities.	313.2	312.9	312.9	314.9	1,253.9
Do not proceed with additional funding for Export Market Development Grants*	There is no compelling rationale for governments to provide export subsidies in an open economy.	13.0	13.0	13.0	13.0	50.0
Eliminate EFIC national interest account	There is no evidence of market failure in export financing, with most exports conducted outside of EFIC remit.	3.9	3.1	2.2	1.3	10.4
Eliminate tourism program initiatives	There is no economic justification for government subsidies to be directed toward specific industries.	186.9	185.8	176.8	178.1	727.6
Health portfolio						
Abolish Australian National Preventive Health Agency	Agency is dedicated to restricting freedom of consumption choices by Australians.	49.4	25.2	23.5	23.9	122.0
Abolish Australian Sports Commission	The maintenance of sports administration and funding activities is not a core role for governments.	311.9	278.9	262.8	265.1	1,118.7
Abolish Health Workforce Australia	The states are responsible for managing health workforces.	209.3	213.1	215.8	218.5	856.7
Abolish Independent Pricing Authority	State governments are capable of implementing their own costing methodologies for provision of hospital treatments.	26.2	26.4	26.3	26.7	105.5
Abolish National Health Funding Body	Responsibility for the funding of government hospitals rests with state and territory governments.	4.4	4.4	4.5	4.5	17.8
Abolish National Health Performance Authority	The states already administer performance management framework, and publish performance results across hospitals.	33.7	34.2	34.8	35.4	138.1
Abolish Private Health Industry Ombudsman	Insufficient evidence that government intervention is required to mediate complaint processes between health insurers and their customers.	2.5	2.6	2.5	2.5	10.1
Cancel e-health implementation	Implementation of national e-health initiative characterised by cost blowouts and has delivered insufficient value for taxpayers' money.	148.9	56.5	42.5	29.1	277.0
Eliminate departmental sports funding	There is no public goods rationale for public sector funding of	67.5	74.0	42.5	44.8	228.9

programs	sporting activities.						
Human services portfolio							
Discontinue Income Management BasicsCard	Governments should not paternalistically dictate to welfare recipients how their funds should be spent.	5.0	3.0	-	-	8.0	
Immigration portfolio							
Abolish multicultural grants funding	Provision of grants to ethnic groups inimical to promotion of social cohesiveness and inclusion.	111.4	2.5	2.5	2.5	118.9	
Industry portfolio							
Abolish Australian Renewable Energy Agency	Regulatory or subsidy favouritism directed toward renewable energy sector distorts resource allocation, and unduly raises costs of production and energy consumption.	508.9	366.6	260.0	149.6	1,285.1	
Abolish Australian Research Council	Government funded R&D delivers questionable social benefits, and no reliable demonstration that activities bolster economic growth and productivity outcomes.	910.0	907.4	862.6	817.4	3,497.5	
Abolish Australian Skills Quality Authority	Regulation of vocational education and training sector more appropriately handled at regional and local levels by the states.	38.0	38.6	38.6	39.2	154.4	
Abolish departmental corporate welfare programs and program support	Public sector subsidies for specific industries distort resource allocation and hampers economic competitiveness.	1,475.2	1,734.3	1,506.3	1,132.0	5,847.8	
Do not proceed with exploration development incentive scheme*	Abolition of the mining tax should be sufficient to encourage new exploration activities in mining sector.	-	25.0	35.0	40.0	100.0	
Do not proceed with Manufacturing Transition Grants program*	Significant risk that structural adjustment programs, only intended for short term purposes, will remain as long term initiatives exacerbating corporate welfare dependency.	-	25.0	25.0	-	50.0	
Eliminate Carbon Capture and Storage Flagships	Economic and technical feasibility testing of carbon capture technologies should be conducted by firms, and not through governments.	102.2	178.8	250.4	86.7	618.2	
Eliminate Coal Mining Technology Abatement package	The private sector should finance its own projects to reduce fugitive emissions.	24.0	14.0	-	-	38.0	
Eliminate Connecting Renewables to the Grid program	Connecting expensive and unreliable renewable energies to electricity distribution grids contributes to increasing electricity costs for businesses and consumers.	25.0	50.0	55.0	55.0	185.0	

Eliminate ethanol production grants	Subsidies encourage production of alternative fuel unsuitable for most cars, and reduces potential food export activities.	173.6	200.3	200.3	200.3	774.5
Eliminate National CO2 Infrastructure Plan	Governments should desist from involvement in the selection of locations for experimental carbon capture and storage facilities.	15.0	5.7			20.7
Eliminate National Low Emissions Coal Initiative	Government should not provide direct assistance to specific industries to abate CO2 emissions.	32.8	26.0	19.0	-	77.8
Eliminate National Low Emission Technology Demonstration Fund	It is inappropriate for governments to use tax funds for greenfield demonstration projects of questionable value.	20.0	40.0	-	-	60.0
Eliminate other clean energy programs (incl. solar schools plan)	Subsidisation of renewable energies serves to promote costly and inefficient energy alternatives.	144.4	100.4	58.9	35.0	338.7
Infrastructure and regional development portfolio						
Abolish local government grants and programs	Local government funding and overarching management a state responsibility.	1,167.3	2,369.7	2,472.7	2,578.0	8,587.7
Abolish National Capital Authority	Activities of NCA unnecessarily create uncertainties and red tape in land and development planning in ACT.	37.4	38.4	38.6	38.8	153.2
Abolish regional development activities	Regional development activities a state government responsibility.	370.6	495.7	330.1	175.5	1,372.0
Do not proceed with Community Development Grants program*	Likely that grant funding will be allocated to projects providing poor economic value to communities.	2.0	160.0	160.0	20.0	342.0
Do not proceed with National Stronger Regions Fund*	Risk that funds will be spent ineffectively on politically preferred projects, rather than on value adding assets genuinely needed by low SES communities.	-	-	200.0	200.0	400.0
Do not proceed with Plan to Grow Tasmania*	Best economic interests of Tasmania served by reducing tax and regulatory burdens, not increasing economic dependency through additional subsidies.	2.0	32.0	31.0	10.0	74.0
Eliminate Bass Strait Passenger Vehicle Equalisation Scheme	Maintenance of subsidy for vehicle transits distorts competition between aviation and sea passenger transportation.	42.0	43.0	44.1	45.2	174.3
Eliminate Roads to Recovery program	Commonwealth government should not maintain a direct funding relationship with local government authorities.	373.5	350.0	350.0	350.0	1,423.5
Eliminate Tasmanian Freight Equalisation Scheme	Subsidies for freight are inconsistent with the policy objective of encouraging shipment of high-valued products, and some concerns have been raised over administration of scheme.	114.3	116.5	118.7	121.0	470.5

Eliminate Tasmanian Wheat Freight Scheme	Concerns have been expressed that the operation of the Scheme, in concert with the Freight Equalisation Scheme, has distorted the efficient pattern of wheat shipments to Tasmania.	1.1	1.1	1.1	1.1	4.2
Prime Minister and Cabinet portfolio						
Abolish Australian Institute of Aboriginal and Torres Strait Islander Studies	Research undertaken by body duplicates those undertaken by tertiary education providers and other entities.	15.9	12.9	13.1	12.3	54.1
Abolish National Mental Health Commission	Health care policy, including care for people with mental health issues, is a constitutional responsibility for the states.	6.4	6.5	6.6	6.7	26.1
Cease National Compact, philanthropy and volunteering policy agenda	Work undertaken under these programs likely to impose additional bureaucratic requirements upon not-for-profit sector.	5.5	5.5	5.6	5.7	22.3
Social services portfolio						
Abolish Australian Institute of Family Studies ^(f)	Research into family issues should be supported by tertiary education institutions or other research bodies.	15.7	15.9	15.7	16.1	63.4
Abolish Indigenous Business Australia	Businesses operated by indigenous peoples may be viably maintained within market economy, and should not be subsidised by governments.	150.8	153.1	160.4	163.7	628.0
Abolish Torres Strait Regional Authority	Torres Strait Islanders already politically represented in state and local government spheres, with economic and social activities coordinated through these bodies.	56.0	56.2	54.0	50.6	216.8
Abolish Workplace Gender Equality Agency	Activities distort labour markets through promotion of discrimination favouring women.	5.8	6.0	6.0	6.0	23.8
Do not proceed with marriage vouchers trial*	Government does not have a role in promoting private relationship choices.	-	17.0	3.0	-	20.0
Do not proceed with Paid Parental Leave Scheme ^(g)	PPL will contribute to fiscal churn of welfare state, and crowd out business initiatives to provide own leave arrangements for staff.	-	10.0	1,233.0	2,054.0	3,297.0
Eliminate broadband for seniors program	Seniors are capable of accessing their own cheap broadband plans, or attain broadband access through families and community groups, without government assistance.	8.8	4.6	0.5	0.5	14.5
Eliminate gender equity programs	Gender equity programs unduly promote discrimination in favour of women.	52.8	49.6	50.1	50.8	203.2
Eliminate financial and income	There is no role for government to paternalistically manage the	187.7	172.7	128.5	119.7	608.6

management programs	use of income recipients' subsidies.						
Eliminate indigenous development programs, including CDEP	Indigenous employment and economic development programs have tended to be ineffective in eliminating indigenous economic disadvantage.	96.5	104.6	105.0	99.5	405.6	
Eliminate reimbursement to Great Southern Rail for concessional fares	There is no role for governments to subsidise price concessions for services.	8.6	8.8	9.1	9.3	35.8	
Treasury portfolio							
Abolish Australian Charities and Not-For-Profits Commission	ACNC work program has contributed to increasing red tape burdens for Australian charities.	15.2	14.4	12.9	13.2	55.7	
Abolish Australian Competition and Consumer Commission (ACCC) ^(h)	Organisation directly involved in market activities which are not consistent with government role.	122.4	120.4	118.7	120.1	481.6	
Abolish Clean Energy Finance Corporation	Renewable technologies should receive loans from private financial institutions, and equity from shareholders, to fund their ventures.	338.4	345.1	346.5	347.8	1,377.9	
Abolish National Competition Council	Ongoing administration of national access regime discourages some private sector infrastructure investments, including in mining sector.	2.8	2.8	2.9	2.9	11.4	
Do not proceed with ACCC price monitoring of carbon tax rollback	There is no role for government in price monitoring initiatives, as market competition for consumers should see prices falling consistent with carbon tax abolition.	3.6	6.0	1.0	-	10.0	
Eliminate Australian Screen Production Incentive	Government should not be providing specific subsidies, or other forms of support, to promote specific activities.	237.0	219.0	189.0	215.0	860.0	
Eliminate Cleaner Fuels Grant Scheme	Manufacturing or importation of cleaner fuels should not be supported by taxpayers.	43.0	45.0	47.0	49.0	184.0	
Eliminate National Rental Affordability Scheme	There is insufficient evidence of market failure in the provision of rental properties for low income tenants.	130.9	150.4	169.6	228.0	678.9	
Eliminate Product Stewardship for Oil program	Taxpayers should not be forced to subsidise the use of recycled oils in private sector production processes.	47.0	48.0	51.0	53.0	199.0	
Eliminate First Home Saver Accounts	There is no role for governments to encourage private savings by prospective first home buyers.	19.0	18.0	18.0	19.0	74.0	
TOTAL SAVINGS		22,101.7	23,807.7	23,989.4	28,902.2	98,800.6	

Savings identified in this table based upon administered and/or departmental expenses attributed to outcomes, as stated in departmental portfolio budget statements, as well as policy costings announced by Liberal-National Coalition in August 2013. * Coalition government policy announced during 2013 federal election campaign. (a) Government 'equity funding' appropriation to NBN Co. only. (b) Identified savings exclude ongoing funding for Australian membership of international communications organisations. (c) Based on information provided in 2011-12 Budget Papers. (d) Does not include Coalition announcement of reduced indexation of foreign aid. (e) Including abolition of Export Market Development Grant Scheme. AUSTRADE consular and passport services should be absorbed by DFAT. (f) Total expenses. (g) Including abolition of current parental leave scheme, and foregone company tax increase. (h) Excluding Australian Energy Regulator.

Reducing the scope of government through privatisation

Entity	Reason	Sales proceeds range (\$ millions)
Australian Broadcasting Commission and Special Broadcasting Service	There is no evidence of market failure justifying the existence of government broadcasting services in a competitive communications market.	2,000-3,000
Australia Postal Corporation	Private courier services and the emergence of the internet have undermined market failure justifications for retaining a public sector letter and parcel delivery service.	5,000-7,000
Australian Rail Track Corporation	Private sector has a ready capacity to invest in additional rail infrastructure, supporting Australia's growing freight task, whereas fiscal limits constrain government capacity to invest in additional track.	5,000-6,000
Defence Housing Australia	Management of properties can be readily managed by private sector, and concerns have been raised in the past about lack of competitive neutrality of DHA operations with private real estate sector.	10,000-11,000
Medibank Private	Continuing public sector involvement in a highly competitive private health insurance industry inappropriate on resource allocation and competitive neutrality grounds.	4,000-5,000
Snowy Mountains Hydro-Electric Scheme	Inappropriate for governments to retain ownership of electricity generation assets and retailing functions, with Victoria and South Australia already demonstrating success of privatisation in electricity sector.	5,000-6,000
TOTAL SALES PROCEEDS		31,000-38,000

Estimates of sales proceeds derived from a range of source, including previous IPA analysis, estimates presented in newspaper reports, and assessments based on asset and revenue profiles of entities.