

GST DISTRIBUTION REVIEW

PAPER BY MR PETER EMERY

THREE CHEERS FOR THE COMMONWEALTH GRANTS COMMISSION

Paradise, South Australia

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Introduction

One of the disappointing features of the Panel's Interim Report – at least from my point of view – is the failure to describe or analyse in any depth the Commonwealth Grants Commission. I am referring here not so much to principles and methodology as to matters such as the nature of the Commission, its personnel, the ways in which its approaches have developed over the years, how it goes about its work, the reputation it has established and so on.

The purpose of this Paper is to comment on some of these aspects and to suggest that they should be considered by the Panel as an important part of its work and recommendations.

I need to emphasise that I am in no sense writing this Paper on behalf of or at the request of the Commission although I have received some assistance of a purely factual nature from Commission staff. Although, as mentioned in the Paper I submitted earlier in the process I spent many years as a Commonwealth and then a South Australian Treasury officer (and was Head of the latter for some years) the views I have expressed and am now expressing are put forward purely in my personal capacity.

The long established nature of the Commission

I stand subject to correction on this point but I believe that the Commission is the longest standing of all the numerous statutory authorities of the Commonwealth. This can, perhaps, be looked at in two ways. The first, which I would advocate, is that this proves that the Commission has played a useful role in the Federation over a very long period, that it has established a fine reputation and that it has been able to adapt to changing circumstances. The fact that its recommendations have been invariably accepted over the years by successive Commonwealth Governments and Parliaments is surely no accident. The second way to look at the matter might be to suggest that the fact that the Commission has been so long established is a reason for some kind of fundamental review. Although readers of this Paper will know that organisations can get stuck in their ways it is clear that this is not the case with the Grants Commission. There have been many changes in personnel, in methodology and in procedures and there is no factual evidence to suggest that it has not been able to adapt to new circumstances as they have arisen.

Personnel

It is perhaps trite to say that the quality and strength of any organisation is most determined by the quality of its personnel.

Following is a list of the people who have served as Commissioners over the years noting the periods of their service and summarising relevant parts of their backgrounds.

CHAIRPERSONS

Name	Years of service	Background
Eggleston, The Hon Sir Frederic	July 1933 to November 1941 – 8 years	Barrister, politician, Member of the Victorian lower house, Diplomat (first Australian Minister to China.)
Mills, Professor R C OBE	November 1941 to November 1945 – 4 years	Academic, Economist, Chairman of the Universities Commission, Director of the Commonwealth Office of Education.
Fitzgerald, Alexander OBE	November 1945 to September 1960 – 15 years	Accountant, academic, local government Councillor for the city of Box Hill and Chairman of numerous organisations including the Dairy Industry Cost Investigation and Decimal Currency Council.
Phillips, Sir Philip CMG, MM	October 1960 to September 1966 – 6 years	Solicitor and Barrister of the Supreme Court of Victoria, Academic in Arts and Law, Chairman of the Victorian Transport Regulation Board, Royal Commissioner into the sale and consumption of liquor in Victoria.
Melville, Sir Leslie KBE	October 1966 to September 1974 – 12 years	Actuary, Academic, Economic advisor to the Commonwealth Bank, Board member of the Reserve Bank, Vice-Chancellor of the Australian National University, Chairman of the Australian Tariff Board
Else-Mitchell, The Hon Mr Justice R CMG	October 1974 to June 1989 – 15 years	Judge of the New South Wales Supreme Court, Chairman of various committees including the New South Wales Royal Commission of inquiry into rating, valuation and Local Government finance and Commonwealth Commission of inquiry into land tenures.
Rye, Charles Richard AM	July 1989 to June 1999 – 10 years	Deputy Secretary Commonwealth Treasury, Executive Director of the International Monetary Fund, Washington.
Morris, Allan G	July 1999 to June 2010 – 11 years	Economist, CEO in Government Departments in the Northern Territory and Tasmania, Executive Director for Australia at the European Bank for Reconstruction and Development in London and Advisor to

Henderson, Alan G AM	June 2010 to current – 2 years so far	developing nations on governance issues. Deputy Secretary in Department of Prime Minister & Cabinet, Deputy Secretary for Corporate Services in the Department of Defence, Head of the taskforce managing the APEC Ministerial meetings in Australia in 2007.
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MEMBERS

Name	From	Background
Giblin, Professor Lyndhurst F DSO, MC	July 1933 to July 1936 – 3 years	Member of the Tasmanian Lower House, Government Statistician of Tasmania, Ritchie Professor of Economics at the University of Melbourne, Acting Commonwealth Statistician, Founding member of the Commonwealth Grants Commission, board member of the Commonwealth Bank.
Sandford, Sir Wallace	July 1933 to July 1936 – 3 years	Holder of numerous directorships including the Adelaide Cement Company, Consul for Sweden in Adelaide, Politician, Member of the Legislative Council.
Creasey, G L CBE	July 1936 to December 1938 – 2 years	Accountant of Tasmania.
Wood, Professor Gordon L	July 1936 to June 1953 – 17 years	Teacher, Academic, Economist, broadcaster of economic affairs and Secretary of the Economic Society of Australia and New Zealand.
Pearce, The Rt Hon Sir George KCVO	January 1939 to December 1944 – 5 years	Senator for Western Australia, Minister for Defence, Father of the Australia Senate.
Kenneally, The Hon James J	January 1945 to September 1954 – 9 years	Labour party organiser, Federal president of the A.L.P, Member of the Legislative Assembly for East Perth, Minister for employment, industrial development, child welfare, public works and labour (Collier Government WA).
Prest, Professor Wilfred	October 1953 to	Head of Department of Economics at

OBE	September 1965 – 12 years	Melbourne University
Reid, Sir Alexander CMG, ISO	October 1954 to November 1965 – 11 years	Under-treasurer of Western Australia, Chairman of numerous organisations including the State Housing and State Electricity Commissions (WA) and Chancellor of University of Western Australia.
Melville, Sir Leslie KBE	October 1965 to September 1966 January 1979 to June 1981 January 1982 to September 1982 – 17 years in total as chair and member	Actuary, Academic, Economic advisor to the Commonwealth Bank, Board member of the Reserve Bank, Vice-Chancellor of the Australian National University, Chairman of the Australian Tariff Board
Goodes, H J CBE	November 1965 to September 1971 – 6 years	Director General of the Commonwealth Department of Social Services
Lane, William R CBE	December 1966 to April 1993 December 1993 to December 1994 – 28 years	Chief Financial Officer of the Commonwealth Treasury, Academic and later Dean of the Faculty of Commerce & Economics at the University of Queensland.
Goodsell, Sir John CMG	October 1971 to December 1972- 1 year	Public servant, Head of Treasury (NSW), President of the Metropolitan Water Sewerage and Drainage Board (NSW), Chairman of the Sydney Harbour Transport Board and Public Service Board, President of the NSW branch of the Royal Institute of Public Administration.
Mathews, Professor Russell L CBE	December 1972 to January 1990 – 18 years	Academic in accounting and commerce, founder of the Centre for Research in Federal Financial Relations, appointed to a variety of other Commonwealth Government Commissions and Committees of Enquiry, including Inflation and Taxation (1975) and Accounting in Higher Education (1990), he also reviewed the tax systems in several Pacific Island nations.

Nimmo, James Ferguson CBE	January 1974 to December 1974 – 1 year	Secretary of the Department of Housing
Crawford, Sir John AC, CBE	January 1979 to July 1979 - 6 months	Academic, economist, Founding director of Bureau of Agricultural Economics, Secretary of the Department of Commerce and Agriculture and the Department of Trade, Chancellor of the ANU.
Donovan, J B	January 1979 to June 1981 January 1982 to September 1982 – 3 years	Chief Economist, WD Scott; Economic and Management Consultant
Eyers, Ernest Stanley OBE	October 1979 to June 1981 January 1982 to September 1982 – 3 years	Company Director, former Secretary of the Commonwealth Bank and adviser to the Reserve Bank with wide experience in the Australian financial system.
Daniel Roy CBE	July 1986 to January 1988 – 1½ years	Economist, Deputy Secretary of the Treasury, alternative Executive Director of the International Monetary Fund
Barnes, Ron D	July 1989 to August 1999 – 10 years	Under Treasurer (South Australia)
Argy, Fred AM, OBE	September 1991 to September 1996 – 5 years	Secretary to the Inquiry on the Australian Financial System (Campbell report), Ambassador to the OECD, senior policy adviser in several departments, including Treasury, Director of the Economic Planning Advisory Commission, President of the Economic Society of Australia, Director of Legal and General Australia.
Wiltshire, Professor K W AO	March 1995 to March 2004 – 9 years	Academic, served as Chairman of various organisations including the Australian National Commission for UNESCO, Consultant to various bodies including governments, Royal Commissions, private business groups, and international bodies.
Morris, Allan G	August 1997 to	Economist, CEO in Government

	June 1999 – 13 years in total as Chair and member	Departments in the Northern Territory and Tasmania, Executive Director for Australia at the European Bank for Reconstruction and Development in London and Advisor to developing nations on governance issues.
Early, Len J PSM	August 1999 to August 2004 – 5 years	Deputy Secretary Department of finance and Administration.
Rolfe, Hilda A	November 1999 to November 2004 – 5 years	Former Mayor of Woollahra, Commissioner on the Trade Practices Commission, Economist, Town planner, Chairman of the Prices Surveillance Authority.
Williams, Professor Ross A FASSA	April 2002 to March 2011 – 9 years	Professorial Fellow at the Melbourne Institute since 2003. Prior to this he was Dean of the Faculty of Economics and Commerce and Professor of Econometrics at the University of Melbourne.
Appleyard, Glenn P	June 2004 to current – 8 years so far	Member of Australian Accounting Standards Board (AASB) from 1 January 2009 to 31 December 2011, Deputy Secretary of the Tasmanian and Victorian Departments of Treasury and Finance, Regional Director for the Australian Bureau of Statistics in Tasmania, General Manager of the Food, Agriculture and Fisheries Division of the Tasmanian Department of Primary Industries, Water and Environment and Economic consultant.
Owens, Helen J	August 2004 to March 2006 – 2 years	Senior Health Economist, Member of board of Directors at Health Commission of Victoria, Commissioner on the Productivity Commission, expert strategic advisor to the Victorian Department of Premier and Cabinet, consultant to the Australian Healthcare and Hospitals Association. Her academic positions at Monash and Melbourne universities have included Associate Professor and Deputy Director of the National Centre for Health Program Evaluation.
Westacott, Jennifer	July 2006 to	Chief Executive at the Business Council of

	April 2011 – 5 years	Australia from April 2011. Previously, she was a Director and National Lead Partner at KPMG. For over 20 years she occupied critical leadership positions in the New South Wales and Victorian Governments and has extensive policy experience in both the public and private sectors.
Smith, Greg J	August 2006 to current – 6 years so far	Former Executive Director of the Australian Treasury, now an Adjunct Professor in Economic and Social Policy at the Australian Catholic University and a consultant in public policy.
Petchey, Professor J	July 2011 to current – 1 year so far	Professor of Economics at Curtin Business School, Western Australia. He has published extensively on equalization and fiscal federalism and has completed policy work on infrastructure equalization and local government funding in Africa on behalf of international agencies including the World Bank.
Faulkner, Patricia AO	July 2011 to current – 1 year so far	Chair of the Prime Minister's Social Inclusion Board and Jesuit Social Services, member of the COAG Reform Council, Board member of St Vincent's Health Australia, inaugural Chair of the National Health Performance Authority, previously, a Partner and Global Leader for Healthcare at KPMG and prior to that was the Secretary of the Victorian Department of Human Services.
Menzies, Jenny	July 2011 to current – 1 year so far	Public policy consultant, Secretary to the Council for the Australian Federation, Former senior executive within the Queensland Department of the Premier and Cabinet including Cabinet Secretary and Executive Director Strategic Policy.

Although it could not be suggested that all of these people have made equally strong contributions to the work of the Commission even a cursory glance at the foregoing list should be sufficient to illustrate that a number of the Chairmen and members would warrant the description “distinguished” and the majority of the others have qualifications and backgrounds very relevant to the task – people with experience in abstract economic

reasoning combined with an ability to understand the details of public finance and other statistical data and to analyse the best ways of manipulating this data given the Commission's objectives. Of the people on the list about 15 to 20 have been or are known to me as I have either worked closely with them or have appeared before them as a witness when I was a Commonwealth or State Treasury officer. With perhaps one or two exceptions they were all people of integrity and ability.

It is relevant to note that it has been and remains the practice for Commonwealth Governments to consult State and Territory Governments on the appointment of Chairman and Members. This has led to a good range of appointees in terms of geography, background experience, expertise etc. I have no doubt that it has been well in the capacity of the Commission, given the high quality of its membership, to fully understand, analyse and evaluate the many different points of view which have been put to it. This leads to the next point.

The flow of debate before the Commission

For about the first five decades of its work the Commission's task was to consider and recommend upon applications by certain of the States for so-called Special Grants. These States were often referred to as "claimant" and were variously Tasmania, Western Australia, South Australia and Queensland. These grants were additional to those distributed by the Commonwealth to all States and the debate before the Commission about how to do its calculations was confined to the claimant States and the Commonwealth Treasury. During this period it would be fair to say that the non-claimant States took very little if any interest. This changed following the proposal by the Commonwealth Government at a Premiers' Conference in 1976 that the Commission's work would be broadened to recommend the distribution of a given total between all the States. This is something which I initiated as a Commonwealth Treasury officer and I thus have a particular interest in what developed following this important change.

What this has led to is a great outburst of debate involving the Commission and all the States and Territories about the principles which the Commission should apply, basic issues of methodology, whether particular methodologies have led to favourable or adverse consequences, the detail of calculations and so on. The debate has been conducted through large volumes of written work produced by the States and Territories, consultancy reports of various kinds, oral debate before the Commission and the Commission's own reports and working papers.

There is no doubt that all this has resulted not only in a higher level of debate but also fairer outcomes, particularly vis a vis New South Wales and Victoria, than was previously the case.

Just to cite one example here the Commission has recognised, as it did not previously, the costs involved in congestion etc. in the larger cities.

Here is what I said on this in my previous Submission to the Panel: “There is probably no other area of public life in this country which is the subject of such a high level of continuing argument and counter-argument, backwards and forwards, thrust and counter-thrust and thesis and anti-thesis leading to development and refinement over the years. A veritable hive of Hegelian dialectic!”

Against this background it is perhaps not surprising that the Panel’s Interim Report does not identify many clearly justified changes in the Commission’s approaches.

Documentation of the Commission’s work

Another feature of the Commission’s work is the huge volume and high quality of its documentation. It has produced Annual Reports every year since its inception. Its last major report on relativities consisted of 1,000 pages. Its most recent update report was 137 pages. The Commission’s website provides a broad description of the Commission’s assessments as well as tables which support the calculation of the relativities. This material should be accessible to general readers interested in the Commission’s work. The Commission also provides to the State Treasuries access to an on-line assessment system which describes how the assessments are undertaken and provides all the data and calculations the Commission produces to generate the relativities. All this material is, in my judgement, well set out for the benefit of readers who are willing and able to apply themselves. I have also personally found that the Commission staff are very helpful in terms of providing further data or explanations.

Clarification of my views on the Grants Commission

My general views on the Grants Commission and its work will be clear from the above. However, to be perfectly clear I should say that I am not implying that I would agree with every decision that has been taken by the Commission over the years. For example I believe it could on occasions have been more forthright in its defence of its approach to fiscal equalisation particularly vis a vis arguments about the alleged conflict between equalisation and efficiency. I would also disagree with recent decisions to eliminate assessments with respect to some relatively minor areas of State finances. The fact is that these areas are not necessarily minor in aggregate effect especially from the point of view of the less populous States and the Territories.

However, these are matters for legitimate differences of view and do not significantly qualify the basic viewpoint put forward in this Paper.

Concluding Comments

I suggest for the Panel's consideration that it ensure that its Final Report appropriately and fully recognise the great contribution which has been made by the Commission over the years and that it express confidence in the ability of the Commission to continue to do its work well, within the basic principles of fiscal equalisation.

I believe there are also implications for the nature of the recommendations which the Panel might appropriately put forward to the Government. I suggest that the Panel's thoughts should be expressed in such a way as to avoid what could be regarded as "second guessing" or "instructing" the Commission with the emphasis on suggestions which the Panel believes might warrant further attention by the Commission. To put this another way it would be appropriate, given the proven strengths of the Grants Commission which I have attempted to outline, for the Panel's views and recommendations to be put forward in a duly modest way.

Public finances in Australia are facing a number of difficult issues which warrant potentially major even radical, reform. Partly going on press reports it would appear that the Review Panel has put its finger on one of them, namely the long term revenue viability of all States. But the undermining or weakening of fiscal equalisation and the Commonwealth Grants Commission is certainly not one of them.