

Institute for the Study
of Social Change



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AHHA Think Tank on Reform of the Federation and Health

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Federalism and the Fiscal Sustainability Challenge

The reform challenge is well understood

- Cost shifting and ambiguity; lack of single funder (intergovernmental cooperation breaking down)
- VFI leads to dual funding of public hospitals ... Root cause of the blame game (35% C'wealth and declining)
- The adequacy debate ... real per capita public hospital spending has been increasing at 3% per year ... real state revenue growth flat, cost pressures unbaiting?

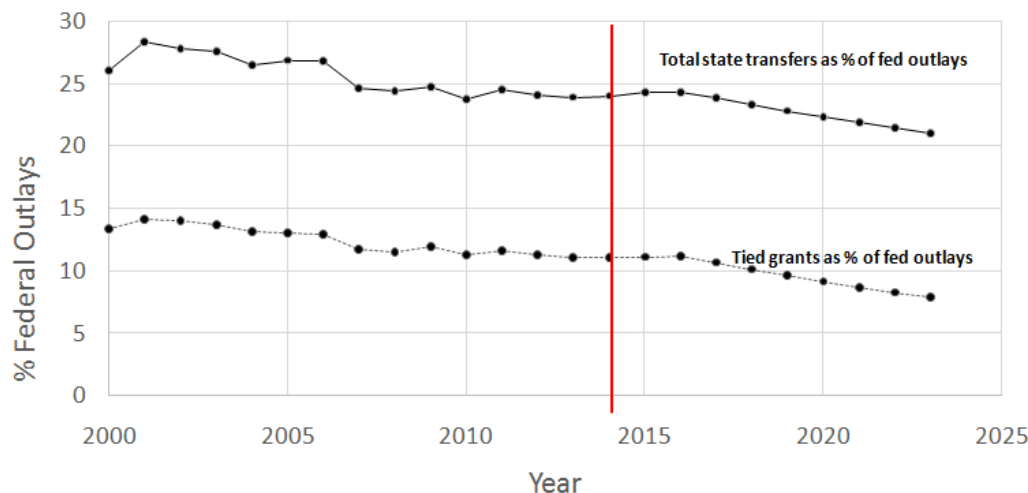
Last month's Federalism Issues Paper: The Abbott Government's agenda?

- Acknowledges that IG relations are tense. The end of 'Cooperative federalism'
- Clearer demarcation of responsibilities (but vague and no appetite for a single funder)
- Commitment to subsidiarily ... Ok as a principle of service deliver and governance but no detail on how to fund such a regime
- Moreover, as outlined in the 2014 budget and last week's IGR, per capita funding frozen in real terms after 2017

Australia's descent to 'fend for yourself federalism'

- Post-Crisis trend to shift 'Burden of Austerity' to sub-national governments
- Canada has a tradition of 'fend for yourself federalism' *but* this time Australia is leading the charge
- Esp problematic given Australian state's lack of fiscal capacity

Intergovernmental Transfers in Australia: Historical Trends



Patients could be casualty of \$57 billion hospital funding shortfall over next 10 years

March 14, 2015

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Exclusive



Treasurer Joe Hooke, Prime Minister Tony Abbott and NSW Premier Mike Baird. Photo: Edwina Pickles

Patients could cop the brunt of a \$57 billion hospital funding shortfall that lies behind the miraculous budget turnaround projected by Joe Hooke in the Intergenerational Report.

The yawning funding gap, that threatens to blow out state budgets as well as hospital waiting lists, will be central to the Abbott government's looming white paper on federalism, which NSW Premier Mike Baird insists must be used to resolve the problem.

At least the issue is now on the agenda
(and Mike Baird doesn't look happy)

Key points

- C'wealth to cut hospital funding by 57 billion over next decade relative to 2013 baseline
- IGR surplus largely due to 2055 cutting C'wealth health spending from 7.1% to 5.5% (25 billion pa in 2015 figures)
- Stephen Duckett 'lazy public policy'

Two key discussion questions:

1. Is such a cost-shift politically feasible?
 - No existing state revenue bases
 - State's reluctant to increase own-source taxes
 - Centralist political culture
2. Solutions in the context of the current reform process?
 - Single funder model
 - Proceeds of 15% GST (30 billion) split between compensations, abolishing states taxes and hospital block grant?