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ABOLISH THE GRANTS COMMISSION: IPA

Free market think tank the Institute of Public Affairs has called for the abolition of the Commonwealth Grants Commission as part of a wholesale reform agenda for Australian federalism.

According to Julie Novak, Research Fellow at the IPA, 'The Grants Commission is a relic of the past, and should be abandoned as part of reforms to revive competitive federalism.'

Ms Novak's submission to the federal government's GST distribution review shows that the way GST revenues are divided between the states and territories harms the economy and deters state governments from engaging in economic reform.

The current GST distribution system is also poorly targeted on equity grounds, encourages rent seeking activity by states, and is prone to growing complexity over time.

'The fiscal equalisation of GST between the states undermines the inherent advantages of federalism in promoting diversity and competition between governments,' said Ms Novak

The IPA submission outlines a framework of reform for Australia to move away from the dysfunctional federalism that the GST fiscal equalisation formula aids and abets.

'The key to make Australian federalism work effectively again, ending the 'blame game' between commonwealth and states, is to return most, if not all, taxing powers back to the states,' said Ms Novak.

According to the IPA, a system of 'reverse revenue sharing' from the states to the commonwealth would provide a number of benefits for our federal system.

'A reverse revenue sharing model, replacing the Grants Commission, would encourage states to compete against each other, promote genuine economic reform and reduce the lobbying of special interests for government favours,' said Ms Novak.

'Most importantly it would end the current system where the commonwealth rules the roost on taxing powers, to the detriment of economic growth and productivity improvement.'

Copies of the IPA submission to the GST Distribution Review are available on the IPA website: <http://ipa.org.au/publications/1924/beyond-its-use-by-date:-australia%27s-system-of-fiscal-equalisation,-and-how-to-reform-it>

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