Gridlock: reforming Australia’s institutions to unblock policy reform

Melbourne Law School and Melbourne School of Government
University of Melbourne

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University of Melbourne
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The personal stuff

Personal views, should not be attributed to EY Port Jackson Partners

Thanks to Melbourne Law School and Melbourne School of Government
Rationales for institutional reform

Intrinsic value of good government
• Principles of accountability, transparency and access to government
• Increase reality and perception that government is fair

Reduce risk of corruption
• Soft corrosion readily hardens into corruption
• Costs of corruption extremely high

Increase chance of worthwhile substantive reform
• The point of *Gridlock*
Gridlock

Is Australia getting worse at reform?

What were the enablers and blockers of reform over the last decade?

What institutional changes might improve the strike rate?
There hasn’t been much reform for the last 15 years

Major policy changes by policy area and government

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<tbody>
<tr>
<td>Float A$</td>
<td>International students</td>
<td>Tariff reductions</td>
<td>Balanced budget commitment</td>
<td>FTAs</td>
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<td>international students</td>
<td>RBA inflation targets</td>
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<td>Balanced budget commitment</td>
<td>PBO</td>
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<td>Labour markets</td>
<td>Accord</td>
<td>Enterprise Bargaining</td>
<td>Workplace Relations Act</td>
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<td>Competition policy</td>
<td>Hilmer review</td>
<td>National Competition Policy</td>
<td>National Competition Policy</td>
<td>Demand-driven higher ed</td>
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<td>Privatisation</td>
<td>GBE reform</td>
<td>CBA sale</td>
<td>Telstra sale (1,2 &amp; 3)</td>
<td>Medibank sale</td>
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<td>Regulation</td>
<td>Foreign bank entry</td>
<td>Telco dereg.</td>
<td>Bank capital reform</td>
<td>National Reform Agenda</td>
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<td>Tax</td>
<td>CGT &amp; FBT</td>
<td>Dividend imputation</td>
<td>GST</td>
<td>Carbon pricing</td>
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<td>Federalism</td>
<td>Medicare</td>
<td>Super-annuation</td>
<td>Personal income tax cuts</td>
<td>Super tax</td>
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Notes: Reforms that were not passed, or that were subsequently substantially wound back or repealed, are shown shaded out. ‘Airline IPO’ is the sale and IPO of Qantas in 1993 and 1995. Sources: Access Economics (2019) and The Economist (2011); Grattan analysis.
Gridlock

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Methodology

The problems of investigating institutional reform

• Tendency to jump onto favourite institutional hobbyhorse
• Cherry-pick examples that illustrate institutional hobbyhorse
• Invite response that change failed because not worthwhile reform

Our approach

• Review all major actionable recommendations in all Grattan reports 2009-2019
• Diagnose whether implemented, investigate the enablers and blockers
• Compile all 73 reforms, and look for patterns

Methodological advantages

• A representative sample of reforms: large number, broad portfolio range
• Selected in advance of any consideration about institutional implications
• Already have extensively argued case about why each is a worthwhile reform
• Based on an articulated set of values (spelt out in Prioritising a government’s agenda)
Unpopularity, ideology and vested interests blocked half the unsuccessful reforms

Outcomes of Grattan recommendations

- Sample: 73
- Adopted, no blocker: 21
- Adopted despite blocker: 2
- Unpopular: 12
- Shibboleth: 3
- Vested interest: 3
- V weak evidence: 6
- Budget cost: 5
- Blocked - other: 14

E.g.
- School funding
- School mgt
- Low emissions subsidies
- End of life care
- Childcare subs.

Source: Grattan Gridlock case studies
Reforms have poor prospects if they lack active public support

<table>
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<tr>
<th>Outcomes of Grattan recommendations</th>
<th>Adopted</th>
<th>Blocked</th>
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<tr>
<td>Public strongly in favour</td>
<td>7</td>
<td></td>
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<tr>
<td>Majority in favour</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Public indifferent</td>
<td>7</td>
<td></td>
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<tr>
<td>Majority opposed</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>Public strongly opposed</td>
<td>3</td>
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</table>

E.g.
- Stamp duty → land tax
- Transport project CBA
- Congestion pricing
- Age Pension age
- Age Pension assets test
- End 1st home buyers
- Rationalise reg’l dev’t
- Increase density

Source: Grattan Gridlock case studies
Reforms have poor prospects if they run into ideological beliefs or shibboleths

Outcomes of Grattan recommendations

Adopted: 18
Blocked: 34

No ideological issue
Raises ideological reservations
Classic shibboleth

E.g.
- Climate change
- Tax limited to 23.9% of GDP / tax rate increases
- Increase IR protections
- Broaden/increase GST
- Abandon SG increase

Source: Grattan Gridlock case studies
Reforms have poor prospects if opposed by vested interests AND the evidence is poor

Outcomes of Grattan recommendations

- **Weaker vested interests**
  - Good evidence: 10
  - Weak evidence: 11

- **Stronger vested interests**
  - Good evidence: 17
  - Weak evidence: 15

E.g.
- Legalise ride-sharing
- Retail elec. default price
- Generic pharma price
- Super costs
- Rental reforms

E.g.
- Escrow fund power closures
- Wholesale market gaming
- Pathology prices
- Private health prices

Source: Grattan Gridlock case studies
Gridlock

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## Institutional issues

<table>
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<tr>
<th>Stylised facts</th>
<th>Possible explanations</th>
<th>Possible remedies</th>
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<tbody>
<tr>
<td>• No longer doing unpopular reforms</td>
<td>• Professionalisation of politics: shrinking party membership, advisor career path, growing patronage, post-politics jobs</td>
<td>• Political funding limits</td>
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<tr>
<td>• Ideological positions not being overcome by rational argument</td>
<td>• Growth of ministerial offices (inherently risk-averse)</td>
<td>• Lobbying controls</td>
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<tr>
<td>• Increasing tendency to repeal reforms</td>
<td>• Fewer semi-independent bodies, weaker public service, less evaluation, less published, more consultants</td>
<td>• Restrict revolving door</td>
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<tr>
<td>• Lobby groups often prevail, but not when the evidence base is strong</td>
<td>• Media (24 hour, social, less expert)</td>
<td>• Appointment controls</td>
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<tr>
<td></td>
<td></td>
<td>• Limit size, background and immunity</td>
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<tr>
<td></td>
<td></td>
<td>• Public service appointment/dismissal</td>
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<td></td>
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<td>• More independent publishing bodies</td>
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<td></td>
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<td>• ICAC</td>
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</table>
Why minor parties matter

Overall pattern

• Institutional reforms are popular
• Institutional reforms are not opposed by many lobby groups

• Most States and Territories have implemented some reforms (particularly political funding, lobbying, ICAC)
• Commonwealth has implemented almost nothing apart from PBO

• No progress anywhere on public service independence, ministerial advisors, revolving door

Explanations

• Cartelisation of political parties (global trend), with vested interest in resisting change

• Reforms a result of major inquiries (Fitzgerald, ICAC), or independents holding balance of power
• Copycat federalism at work

• Members of parliament particularly resist weakening the professionalisation of politics
The minor party vote is historically high

First preference votes to minor parties as a share of the formal vote

Source: A.Green data (provided); AEC (2019) Tally Room; Grattan analysis
Conventions and governance

Conventions are often first-best
• Flexible – allow for exceptions
• Focus attention on the underlying principles
• Inevitable – not everything will be written down

Conventions are losing their effectiveness
• Increasingly ignored (appointments, FOI, ministerial accountability, pork-barrelling)
• Electorate not seen to punish breaches
• Perceived electoral advantages in ignoring them (avoid nasty stories; short-term boost)
• Perception that electoral victory matters more than process
• Perception that process doesn’t improve outcomes

Legislated rules are often better than weak conventions
• Can work well – e.g. revised rules for casual Senate vacancies (s.15)
• Legally enforceable rules may be 2nd best – but ineffective conventions are 3rd best
Many of the needed reforms need careful detail, governments won’t help, and independents lack resources

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<th>Needed reforms</th>
<th>Jobs for lawyers</th>
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<td>• Strengthen public service: tighter controls over appointment and dismissal of secretaries, less outsourcing, more program evaluation, more focus on obligation to public as well as government of the day</td>
<td>• Recommended by Thodey but not detailed</td>
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<tr>
<td>• Control ministerial advisers: limit numbers, hire more from public service, tighten code of conduct, increase accountability</td>
<td>• Recommended by Thodey but not detailed</td>
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<tr>
<td>• Reduce patronage: restrict revolving door; tighten appointments processes; control grants and contracts</td>
<td>• Often undefined; where rules in place, no effective enforcement</td>
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<tr>
<td>• Limit vested interests: reform donations and lobbying</td>
<td>• Well-defined by States; need to adapt for Commonwealth</td>
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<td>• Set up independent corruption commission with teeth</td>
<td>• Well-defined – Haines draft bill</td>
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<td>• Increase trust: broaden MP backgrounds; limit entitlements</td>
<td>• Unclear what would work</td>
</tr>
<tr>
<td>• Encourage public-interest media through grants and tax deductions</td>
<td>• Outlined by ACCC, but not detailed</td>
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<tr>
<td>• Control social media: impose sanctions and require take down</td>
<td>• Work in progress</td>
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For more…

grattan.edu.au/report/gridlock/