Executive summary

Since the establishment of the Commonwealth in 1901, Australia has evolved into one of the most stable democracies in the world. The political institutions established at that time have been progressively adapted to accommodate the new demands of the post-industrial world. The infrequent threats that have been made to the political system from extreme protest parties as well as the most serious post-1945 constitutional crisis – the dismissal of the Gough Whitlam Labor government in 1975 – have not destabilized the system. The major political parties have maintained their electoral dominance and there is overwhelming public support for the major political institutions. Political change has been incremental, measured and broadly supported by the two major parties and by the political elite.

Like other countries, Australia struggles with pervasive and persistent limitations on its reform capacity. These limitations are significant, but not crippling. In the course of this review period, realized reforms have been concentrated on industrial relations. Otherwise, reform efforts have not been overwhelming, which is no doubt partly attributable to the long, 11-year tenure of the John Howard government. The new Labor government, elected in November 2007, is promising to make significant changes in policy areas such as industrial relations, education and employment training, environmental policies and foreign affairs without jarring the majority of the electorate expecting incremental rather than radical changes.

Since the mid-1990s, macroeconomic performance has been strong, resulting in solid employment and income growth. Traditionally, Australia has prided itself on being an egalitarian society, reflected by a “mixed economy” in which the welfare state has played an important role in an otherwise market-based economy. This egalitarian self-perception persists, but it is increasingly hard to argue it is the reality. Data show increasing withdrawal of the state sector from the economy, particularly at the federal level, and comparatively high rates of income poverty and socioeconomic disparity that continue to grow. This includes increasing disparities in access to quality education and health care.
Aside from equity issues, absolute performance is also far from optimal across a number of policy domains, including in energy, water management, health care and, to a lesser extent, education and training.

Positive contributors to governance performance and reform capacity include:
- The existence of only two major parties, such that one or the other is in power and is correspondingly more likely to have the mandate to govern and the capacity to implement its policy agenda. This state of affairs is highly conducive to strategically developed policy;
- Strong conventions and traditions of following democratic processes, respecting jurisdictional boundaries and maintaining checks and balances;
- A highly evolved legal system and fiercely independent judiciary;
- Freedom of the press, and a media ownership structure sufficiently diversified to ensure a range of views are expressed; and
- Moderate-to-low levels of corruption (a function of the above robust institutions), along with credible audit processes.

Negative factors affecting reform capacity include:
- The federal system. The constitution of 1901 envisaged a relatively loose coalition of somewhat independent states, something at odds with modern reality and the requirements of effective governance. Nonetheless it remains a binding constraint on federal government activity, and more generally creates policy inertia. Note, however, that this is not unambiguously bad, since it does on occasion prevent adoption of detrimental policy reforms – or indeed, reversion to pre-reform policies.
- The vertical fiscal balance. This is a further way in which Australia’s federal system has adverse effects on governance performance, creating a disconnect between accountability for expenditure and responsibility for raising revenue. It has also seen the federal government increasingly overreach its constitutional powers by using control of revenue to implement policies in areas falling under state government jurisdiction, by making payments to state governments contingent on the states taking specified actions. While this helps overcome the problems of the federal system, the indirect nature of this policy lever often results in unusual and unwieldy regulatory arrangements.
- Insufficient access of the citizenry to official information. Many regard the Freedom of Information Act as weak, containing too many exemptions and lacking an oversight body to ensure government compliance with requests.
Absence of an explicit set of constitutionally, or even legislatively guaranteed civil rights.

Absence of the requirement for regulatory socioeconomic impact statements to accompany legislation.

Concentration of media ownership. Although diversification of media ownership may be sufficient for democracy to function, it is far from optimal.

Inadequate use of independent expert advisory groups in formulating labor market, enterprise, tax and social policies. The influence of academic experts in these policy domains currently appears to be weak. Policies often lack coherence and are frequently at odds with the articulated policy goals of government. While this may in part be deliberate – for example, reflecting political considerations – the lack of expert advice at the initial development stages of policy formulation may also be a factor.

Strategic Outlook

A number of features of the Australian situation clearly affect reform capacity adversely. Whether the country is able to improve in this respect will depend very much on the quality of its human capital. In this respect there are positive signs. The nation has resourceful people drawn from many other parts of the world through its large-scale immigration program. The proportion of its population growth that comes through immigration is larger than that of any other nation. Immigrants, coming from diverse backgrounds, often bring with them valuable experience in addressing problems in different social, political and cultural contexts, as well as high levels of personal entrepreneurship.

Another potentially positive feature is the emphasis placed on education and skills development. This has been a consistently high priority in political rhetoric, especially in that of the new Labor government. If the nation can broadly develop its skills base, it should be in a better position to raise the quality of public service and pursue innovation in reform. However, in recent years educational and scientific institutions have been notably underfunded. The new government’s approach to this issue will be a key test of its commitment to reform.

Several features of the Australian economy bode less well for the future. For the last decade, the economy has been very dependent upon a resources boom,
particularly with respect to the export of minerals to rapidly developing nations in South and East Asia. Rampant urban property development has been another primary source of economic activity. These features of what is sometimes called the “lucky country” mean that Australia does not have a diversified and robust economic base. Recent governments’ emphasis on prioritizing personal tax cuts over public expenditure on improved infrastructure and services has also limited the capacity for balanced development between public and private sectors. This legacy presents major political challenges.

It follows that improvements in the country’s reform capacity depend upon the social policies of multiculturalism, higher education and skills development, industrial policy to produce a more diversified economy, and tax and expenditure policies to repair the underinvestment in infrastructure and public services. If these policies are given high priority, there are good grounds for being confident about Australia’s future as a country of progressive reform.

More specifically, policymakers should develop strategic approaches to the following seven areas:

The first area involves the division of federal and state responsibilities and the vertical fiscal imbalance. This is a problem that permeates numerous policy domains, producing an inefficient delineation of responsibilities. To give but a few examples: the states are responsible for hospitals, but the federal government is responsible for out-of-hospital treatment; the states fund government schools, but the federal government funds non-government schools; and the states are responsible for vocational education and training, while the federal government is responsible for higher education. Health care and education perhaps suffer most from this confusion of responsibilities, and from the lack of consistent accountability across the expenditure and revenue aspects of service delivery. This is, however, a difficult problem. One solution would be to allow states to levy income taxes. This would possibly require constitutional change, something that is highly unlikely. Another potential solution would be to transfer responsibility for health and education to the federal government. However, there are also powerful reasons to resist centralization of control of these areas, including a risk of diminishing the responsiveness to local conditions, needs and priorities.

The second area to be addressed concerns citizens’ access to government information. Significant benefits would flow from strengthening the Freedom of Information Act, for example by reducing the range of exempted documents.
The creation of an oversight body that could process and monitor all information requests would also be useful. At present, departments and agencies vary widely in how they process requests, and in the likelihood of a request being granted at all.

Diversification of media ownership constitutes a third area. A more diversified ownership structure would be beneficial to the functioning of democratic processes. A major problem is the relatively small size of the Australian market, given that the industry is characterized both by sizeable economies of scale and economies of scope across different media forms. Although laws requiring greater diversification of ownership might carry adverse implications for economic efficiency, the wider benefits are likely to outweigh these costs. Current ownership laws also require further adaptation to better account for new media forms, such as the Internet and digital broadcasting.

The fourth area to address involves the expansion of regulatory impact assessments. Although the federal government has recently introduced an ongoing process for reviewing existing legislation, the terms of reference for this process are too narrow. Its focus is entirely on the costs of “red tape” to business. There is no requirement to consider broader socioeconomic effects of regulations, or to consider effects of legislation that do not directly relate to private sector businesses, such as family policy. Maintenance of the current review process is appropriate, but an additional requirement that a socioeconomic impact assessment accompany all new draft legislation would be beneficial. Furthermore, clear assessment criteria and methods need to be developed in order to be applied in a consistent manner across all legislative initiatives.

The fifth issue is the need to create a bill of rights. A set of guaranteed civil rights, which is legally binding on the executive, is a core requirement of a modern democracy. Although many Australian intellectuals advocate the adoption of a bill of rights, this has to date been resisted by governments. A general apathy on the issue has been perpetuated by the lack of significant abuses of civil liberties affecting large segments of the population.

The final area to be addressed involves the use of expert advisors. Greater use of independent expert advisory groups in formulating labor market, enterprise, tax and social policies would be a welcome development. In particular, greater use of experts at the initial stages of policy formulation would possibly improve
consistency between the policies implemented and the stated policy goals of the government. However, political imperatives make such a development unlikely.

Public service reform is the seventh area to be addressed. Current practice is to appoint senior public servants for terms of at most three years, closely tying their fortunes to that of the governing political party. This helps limit the public service’s capacity for impartiality and professionalism. Minimum terms of five years would assist in rectifying this problem. Also related to the politicization of the civil service is the increased use of ministerial staffs. There are approximately 500 ministerial advisers to the federal government, none of whom are accountable to Parliament (as public servants are) or bound by the public service code of conduct. To some extent, advisers are supplanting civil servants, producing a gap in government accountability. The obvious solution is to apply accountability standards to advisers similar to those that govern public servants.
I. Status of democracy

Electoral process

Australian electoral procedures for registering candidates and parties are fair, transparent and properly regulated. Candidates and parties are not discriminated against. Since 1984, the responsibility for conducting elections has rested with the Australian Electoral Commission (AEC), a statutory authority created by an act of parliament and independent of government influence. The AEC is accountable for the conduct of elections to a cross-party parliamentary committee, the Joint Standing Committee on Electoral Matters (JSCEM). As part of its role, the JSCEM evaluates the consequences of changes in electoral law, and reviews the way each federal election is conducted.

Since 1984, political parties have been required to register with the AEC before nominating candidates for election. There are no significant barriers to registration for any potential candidate or party. To be eligible for registration, a party must have a minimum of 500 members who are valid voters. Since registration renders parties eligible for state funding during election campaigns, the rules are strictly enforced. Individual candidates unaffiliated with a political party may run for election if they are 18 years or older, hold Australian citizenship and are on the electoral roll. Those who hold dual citizenship, or public servants are not eligible to run for office.

There are no explicit barriers restricting access to the media for any political party or candidate. The public broadcasters – the Australian Broadcasting Commission (ABC) and the Special Broadcasting Service (SBS) – are in fact legally required to provide balanced coverage. In practice, the two dominant party organizations, the Australian Labor Party and the Liberal-National...
Coalition (a longstanding coalition between the Liberal Party and the National Party of Australia), attract most coverage, with minor parties finding it somewhat difficult to attract media coverage. For example, the ABC provided free airtime only to the two main parties during the 2007 election campaign.

Political advertising during election campaigns is regulated by legislation to ensure that voters are aware of its source. Election advertising must include the name and address of the author, and advertising of any kind is banned during the three days prior to Election Day. There are no restrictions on expenditures for advertising by candidates or parties. Equity in the ability to communicate with the electorate is enhanced by the availability of public funds for electoral campaigns. All candidates are entitled to public funding, as long as they obtain at least 4 percent of the first-preference votes in the country’s instant-runoff system. The amount to be paid is calculated by multiplying the number of votes obtained by the election funding rate for that year. Parties received a total of AUD 42 million (approx. € 25 million) in public funding for the 2004 federal election.

Inequity in access to the media does arguably arise as a result of the governing party’s ability to run advertising campaigns that ostensibly provide information about government policies, but which are in fact primarily conducted to advance the party’s electoral interests. For example, following implementation of industrial relations reforms in July 2006, the federal government ran extensive campaigns advocating the benefits of the reforms. The legitimacy of this advertising was questioned by the opposition.

Voter registration and voting itself each are compulsory for all eligible Australian citizens. The system of compulsory voting overseen by the electoral commission is strictly enforced, and turnout in national elections averages 95 percent, thus ensuring near-universal participation of those who are registered to vote.

Eligibility to vote is restricted to Australian citizens 18 years and older. The only exception is British citizens, provided they were already on the electoral roll by January 25, 1985. Australian citizens living overseas may enroll to vote, based on the constituency in which they last lived prior to moving overseas. There are also special provisions for voters resident in the Antarctic and other offshore territories. AEC decisions on individual enrollment matters can be (and often are) challenged in the courts.

Recently, concerns have arisen that certain groups will be disenfranchised by new restrictions on enrollments introduced in 2006. Under these rules, no new enrollments will be accepted once an election is called. Groups adversely affected are the young and the itinerant. In addition, prisoners serving terms of
three years or more are not entitled to vote in federal elections. Legislation passed in 2006 to prevent prisoners serving shorter terms from voting was overturned by the High Court in August 2007.

**Access to information**

The government respects the independence of the media, and there is little evidence of undue government influence on opinions expressed in media outlets. Sometimes broadcast and print journalists who are perceived to be supportive of the government are also perceived to have better access to interviews with incumbent ministers. Recent legislative changes to cope with terrorism, such as the 2003 Australia Security Intelligence Act, have created more potential for government interference with journalistic freedom. However, in practice, the principle of freedom of speech is deeply embedded in the country’s legal and political culture. Although not entrenched in the constitution, freedom of speech on political matters has been implicitly recognized in a series of High Court judgments since 1992. A strongly independent and activist press also resists any attempt at interference.

Nevertheless, specific regulations do appear to be influenced by the interests of large media operators regarded as favorably predisposed towards the government. For example, changes to media ownership laws in 2007 did not require any operator to divest itself of existing media assets, despite government claims that the reduction in constraints on cross-media ownership were offset by new requirements for diversity across all media types within each region. The independence of the publicly owned television and radio broadcaster ABC is also somewhat compromised, since it is accountable to a board of directors appointed by the federal government.

The mass media in Australia have traditionally been highly concentrated in two companies, the Fairfax Group, which publishes the main daily newspapers in Sydney and Melbourne, and News Corporation, which publishes the only national daily. These companies also have significant interests in television and radio, apart from the publicly funded ABC. Within each capital city, there are at most two significant newspaper publishers, three private free-to-air television operators, and two dominant radio broadcast operators excluding the public one. Prior to April 2007, restrictions on cross-media ownership were the prime policy instrument for promoting diversity. Extensive media regulation laws prohibited a single company from controlling more than one media source within a single market, as well as limiting foreign ownership of mass-media outlets.
In April 2007, restrictions on cross-media ownership were reduced, allowing ownership of two of the three major media types within each capital city. Offsetting this relaxation to some extent were new (but quite weak) requirements of diversity of ownership in all media forms combined, within any given regional market. Few effects of these legislative changes have been evident to date.

Despite the concentration of the media, mass media outlets display a range of political opinions and views. This is not only a consequence of the division between the commercial and publicly funded media and the cross-media and foreign ownership laws, but also of the fact that the major media companies are publicly listed, and their priority is to return value to their shareholders rather than to promote any political view.

The Freedom of Information Act of 1982 gives all Australians the right of access to information held by the federal government and its authorities. Agencies are required to publish information about their operations and powers insofar as they affect the public. They must provide access to documents that are not specifically exempted. However, Parliament can decide that specific documents should be kept confidential in order to protect essential public interests or private or business affairs.

If a request for information is denied, the agency responsible must identify the documents withheld, give written reasons for the decision and provide a notification explaining the right to appeal. If appeals to the agency are fruitless, they may then be taken to an independent tribunal or Commonwealth ombudsman, and finally to the Federal Court. There is a moderate application fee for requests and a slightly higher additional fee for an internal review of a decision.

There has been criticism of delays in gaining access to documentation, of the large number of exemptions available to government, and of the costs and time involved in appealing decisions. In 2006, the High Court of Australia set a precedent which allowed public requests for information to be denied on the basis of very broad claims of potential harm, upholding then-federal Treasurer Peter Costello’s assertion that he could legally withhold information about the application of tax laws because disclosure might undermine the “confidentiality of decision-making” of government officials. In a minority opinion opposing the finding, Chief Justice Murray Gleeson and Justice Michael Kirby argued that “by allowing claims of official confidentiality to trump the rights of applicants, the government could effectively bar all public access to information held by the executive.”

Annotation:
Civil rights

Unlike most Westminster democracies, Australia lacks a legal instrument – a bill of rights or a constitutional clause – guaranteeing a codified list of individual rights. Attempts to introduce a bill of rights at the national level failed in two referendums, respectively in 1944 and 1988. In practice, respect for and protection of civil rights is reasonably high in Australia. Many protections simply derive from conventional practice which respects principles such as due process, natural justice and freedom of movement. However, there are also legislated protections. Civil rights are protected by parliamentary action, taken in the name of responsible government, and by common law, in which certain individual rights are already recognized. The body of common law regards certain rights and freedoms as fundamental, and restricts legislators’ ability to encroach on those freedoms. High Court judgments also protect civil rights, with decisions often based on general principles or accepted fundamental rights. Finally, as Australia has become a signatory to international conventions, the common law has been reinterpreted in the context of these obligations.

In line with many other countries, anti-terrorism legislation passed in 2005 with support of the opposition prohibits the advocacy of terrorism or financial support for terrorist organizations. It also allows for longer periods of detention than would otherwise be permitted, as long as police apply to the attorney general and approval is given by a judge. Also significant is that not all civil rights enjoyed by citizens are extended to non-citizens.

First, asylum seekers who arrive in Australia before being granted asylum are characterized as “illegal arrivals,” and are usually held in prison-like detention centers, sometimes built in remote areas or in neighboring Pacific island countries, while they wait to hear if their asylum request is granted – which can last several years. Immigration laws are designed to minimize the grounds for appeal of decisions to deny asylum, and access to legal representation is also
limited. Second, “legal” arrivals who do not hold permanent residency visas may be deported at the discretion of the immigration minister. Finally, even persons with permanent residency visas, such as convicted criminals, may be deported at the immigration minister’s discretion on “character” grounds, sometimes after having lived in Australia since they were young children.

Although not a significant issue in public discussion, there is little doubt that discrimination does exist in Australian society, and it is also true that state efforts to address discrimination have been limited. The Human Rights and Equal Opportunity Commission (HREOC), established in 1986, oversees the various acts seeking to eliminate discrimination on the basis of sex, race, disability, religion and political beliefs. While HREOC has played a role in reducing discrimination in a range of economic and social activities, it would be difficult to argue it has been completely effective. Studies conducted over the past 20 years evaluating the effectiveness of anti-discrimination legislation have generally agreed that the measures in place are very effective in providing redress for individual complaints, but less so in altering society-wide prejudices. Positive discrimination measures are rare at the level of national public policy. The notable exceptions are a handful of programs available only to Indigenous Australians, such as a job-creation program for indigenous communities. However, indigenous citizens’ circumstances remain so poor on almost all measures of economic, social and health well-being that these efforts must be considered a failure. Neither special representation nor autonomy rights exist. A body to represent indigenous persons and to administer government programs for indigenous communities was established in 1990, but was abolished in 2005 after having been the target of allegations of corruption and mismanagement, with management returning to the Commonwealth government.

**Rule of law**

At the Commonwealth, state and territory levels, government and administrative bodies act predictably, on the basis of and in accordance with legal provisions. The High Court, the supreme judicial body, has become increasingly activist in its decisions over the past two decades, and has become the ultimate arbiter of government decisions. Legal regulations are consistent and transparent, ensuring legal certainty. The main recurring issue arises from jurisdictional uncertainty, generally involving federal legislation that encroaches on state jurisdiction. There have been many disputes between the states and the federal government over the constitutionality of federal legislation, with most eventually settled by the High Court. Most recently,
several state governments unsuccessfully challenged the legality of the industrial relations reforms of 2005. In these reforms, the federal government substantially changed the powers of the Industrial Relations Commission, with significant consequences for the wages and working conditions of Australian employees.

Judicial review
Score: 10

Although the Australian legal system is based on common law, since the 1970s a substantial body of administrative law has also developed. Unlike in many other common law systems, the decision was taken to ensure that this too would be subject to judicial review. This resulted in the establishment of an administrative court, from which complainants may seek a review of executive action. The administrative courts, if they rule against the executive, substitute one government decision for another. Common law is also subject to review by the judiciary, although this is less common than administrative court review. The senior judicial officers of the courts are independently selected. Overall, the courts are strongly independent and have sufficient powers and authority to curb executive action. There are many instances of courts overturning an executive action. The executive has in the past generally accepted the decision of the court, or appealed to a higher court (where available), rather than attempting to circumvent the decision.

Corruption prevention
Score: 8

A variety of measures have been put in place to avoid any conflict between the public duty and private interests of officeholders. In the Federal Parliament, a ministerial code of conduct was introduced in 1996. However, it has no formal standing, so enforcement and sanctions are a matter for the prime minister. There is no code of conduct for members of parliament; their legislative conduct is guided by standing orders, while corruption and bribery on the part of members is prohibited under the Commonwealth criminal code. Members of parliament are required to report on their financial interests within 28 days of making their oath or affirmation of allegiance as a member or senator. These rules were adopted by the House of Representatives in 1984 and by the Senate in 1994. However, there have been numerous instances of failure to comply with this requirement, usually with no consequences for the member concerned. Questions of inappropriate personal gain have been raised in the case of ministers leaving Parliament and immediately taking up positions in companies they had been responsible for regulating. Specifically, concerns have been raised as to whether these ministers had made decisions favorable to their future employers prior to leaving office, and whether confidential information on government policy, business competitors or other matters was used inappropriately.

Party finances are monitored by the Australian Electoral Commission, but
contributor identities face minimal disclosure requirements. Only for annual contributions in excess of AUD 10,000 (approx. €6,000) do donors’ identities need to be disclosed.

Open tender processes are not always used for government contracts, and “commercial in confidence” status is often cited as the reason for nondisclosure of contracts with private-sector firms, raising concerns about the propriety of the dealings. However, contracts are subject to audit processes, which limit the scope for explicit bribery. Questions of propriety in respect to such contracts focus more on favorable treatment extended to friends or favored constituents (often for political gain, or party financial gain), rather than personal gain.

Annotation:
S. Young and J. Tham, “Political finance in Australia: A skewed and secret system” (report prepared for the Democratic Audit of Australia, The Australian National University, Canberra, 2006).

II. Economic and policy-specific performance

<table>
<thead>
<tr>
<th>Basic socioeconomic parameters</th>
<th>score</th>
<th>value</th>
<th>year</th>
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<tbody>
<tr>
<td>GDP p.c.</td>
<td>4.82</td>
<td>34240 $</td>
<td>2005</td>
</tr>
<tr>
<td>Potential growth</td>
<td>3.57</td>
<td>3.3 %</td>
<td>2008</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>8.42</td>
<td>4.9 %</td>
<td>2006</td>
</tr>
<tr>
<td>Labor force growth</td>
<td>6.09</td>
<td>4.2 %</td>
<td>2007-2008</td>
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<td>Gini coefficient</td>
<td>6.89</td>
<td>0.312</td>
<td>2003</td>
</tr>
<tr>
<td>Foreign trade</td>
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<td>-55.6</td>
<td>2005</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>6.84</td>
<td>2.3 %</td>
<td>2007</td>
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<tr>
<td>Real interest rates</td>
<td>7.58</td>
<td>3.6 %</td>
<td>2007</td>
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A Economy and employment
Labor market policy

Score: 8

In mid-2007, the unemployment rate in Australia stood at 4.5 percent, the lowest rate in 30 years. Nonetheless, unemployment is still perceived to be one of the most important economic threats to the country. It is unlikely that this unemployment rate can be further reduced, since it has a sizeable structural component. Moreover, given the relatively small size of the Australian economy and its reliance on natural resources and the mining industry, it is difficult to identify the precise contribution of labor market policy to reductions in unemployment.

Nevertheless, the government’s macroeconomic management, with the assistance of a benign international economic environment, has been key to the decline in unemployment. The country has experienced a noninflationary rate of growth, and a recession has been avoided, while the government has successfully limited wage increases which could increase structural unemployment.

Overall, policy during the period of this review gave greater emphasis to increasing labor force participation than to decreasing unemployment. The government effectively promoted a wide range of programs aimed at increasing the ability of the unemployed to compete in the labor market, at making timely information about job opportunities available, and at providing opportunities for workers to enhance their skill levels. A current initiative aims to overhaul the centralized system of industrial arbitration.

Regulatory impediments to the labor market are relatively low. Unemployment insurance has never been implemented, and unemployment benefits are essentially uniform for all unemployed persons. Currently, collective agreements are the dominant form of wage setting, a result of reforms implemented in 1993. Industrial relations reforms in 2005 further increased labor market flexibility, giving preeminence to individual contracts over collective agreements, reducing dismissal protections, curtailing union power and severely limiting the right to strike. The reforms also changed the mechanism by which minimum wages were set. Until 2005, they were set by an independent quasi-judicial body that considered submissions from trade unions, employer groups and the government in making its determinations. Since 2006, minimum wage levels have been set by the Fair Pay Commission, which is required to take into account the interests of the non-employed in making its decisions. A majority of the public regards these reforms as having excessively reduced employee protections, and believes industrial relations policy to favor employers over employees. Critics emphasize a comparative
lack of investment in education and training, and a failure to consider demand side policies.

Another important dimension of labor market policy is a general trend toward tightening eligibility criteria for welfare benefits, and toward requiring benefit recipients to search for employment, engage in training programs and/or “work for the dole.” The total number of people on welfare rolls has begun to decline in recent years.

**Enterprise policy**

Enterprise policy has on balance served to foster private sector investment and entrepreneurship. Policymakers have tried to reduce red tape for businesses, and there is a fairly strong culture in government of promoting private sector activity. The tax regime is broadly supportive of private investment. Furthermore, the last two decades have seen considerable privatization of public sector enterprises at both the federal and state levels of government, including in banking, electricity, telecommunications, air travel and public transport.

A persistently disappointing feature of the Australian economy is the relatively low level of private-sector research and development expenditure. Tax concessions exist to encourage such investment, but expenditure remains at roughly 1 percent of GDP. In recent years, there have also been widespread claims of skills shortages, suggesting the policy environment has not sufficiently encouraged investment in human capital. As a result, since 2000, considerable resources have been committed to science, research and industry innovation and to higher-education research and training.

**Tax policy**

Australia has traditionally maintained a very complex system of taxation, in which considerable administrative resources are devoted to ensuring compliance and reducing opportunities for evasion. The system is further complicated by the federal-state relationship, with the Commonwealth having the sole right to levy income tax. At the federal level, taxation generates sufficient revenues, and budget surpluses have been substantial in recent years, despite several rounds of cuts to personal income tax rates. On the other hand, the states – having substantial responsibilities for expenditure – regularly complain that grants from the federal government are insufficient to provide services that are part of their responsibilities.
The income tax system is progressive except for indirect taxes, but progressivity has decreased over time. It is also essentially successful in achieving horizontal equity, the notable exception being that the self-employed are more favorably treated than employees. The top marginal personal income tax rate is currently 45 percent, but 80 percent of taxpayers face a marginal tax rate of 30 percent or less. The company tax rate is also 30 percent, although this is effectively not paid on dividends that are paid to Australian residents.

In spite of extensive debates about the current tax system, reform efforts have been minimal, with the single exception of an indirect consumption tax introduced in 2000. This was designed to replace a large number of small, inefficient taxes collected by the states. However, many have not yet been abolished. The tax system is widely regarded as too complex and too costly to comply with, but resources expended on tax compliance in Australia in fact compare quite favorably with other countries.

**Budgetary policy**

The annual budget balance provides Australia’s best measure of fiscal sustainability. The federal government has run surpluses in 10 of the last 11 budgets, to the point that net government debt was eliminated in the 2005 – 2006 budget year. The government has also set up a scheme to fund future public-sector worker pension liabilities, using budget surpluses and its remaining holdings (and the proceeds of the 2006 sale of part of its remaining holdings) in Telstra, a telecommunications company. This good news is somewhat muted by the fact that a number of state governments have significant net debts. Since Australia has a vertical fiscal imbalance – the states are responsible for expenditures well in excess of their tax revenues, while the federal government raises greater tax revenue than is required for its expenditures – many commentators have noted the probability of long-term adverse implications such as the underprovision of state-provided services and unsustainable state fiscal policies.

For most of the 1980s and 1990s, Australia’s budgetary policy was based on the premise that reducing the budget deficit was the most effective means of ensuring fiscal sustainability. Particularly after the election of the Coalition government in 1996, this goal was achieved by a reduction in government spending, notably in the area of higher education. As the economy expanded in the early 2000s as a result of the resources boom, budgetary policy further emphasized fiscal consolidation. Budgetary policy has therefore been largely effective in ensuring fiscal sustainability.
B  Social affairs

Health policy

The Australian health care system is based on a unique mix of private and public insurance and care institutions, providers of services, and a range of funding and regulatory mechanisms. The division of responsibilities between the Commonwealth and the states is a further complicating factor. Correspondingly, its performance on quality, inclusiveness and cost-efficiency measures varies. The federal government directly funds health care through three schemes: Medicare, which subsidizes services provided by doctors; the Pharmaceutical Benefits Scheme (PBS), which subsidizes prescription medications; and a 30 percent subsidy for private health insurance. Medicare is the most important pillar in delivering affordable health care to the entire population, but its features decrease efficiency of the system and do not promote equity of access.

The PBS is perhaps the most successful pillar, providing widespread access to medications at a low unit cost by utilizing the government’s position as a monopoly buyer to ensure the lowest possible price. The quality of medical care in Australia is generally high, but a number of hospital treatments are difficult to access for persons without private insurance. Indeed, waiting periods for non-emergency operations in public hospitals can last many years. Public funding of dental care is also very limited and privately provided dental procedures can be prohibitively expensive for low-income persons.

Nevertheless, despite its limitations, the system delivers generally high overall standards of care, in spite of the difficulties of distance, conflict between the state and Commonwealth governments over funding and management, and the entrenched problems of indigenous health. Attempts to introduce market-oriented reforms and to reduce government subsidization of the system have largely been resisted.

Social cohesion

Australia maintains a means-tested, targeted system of social protection to deal with socioeconomic inequalities that cannot be resolved by the operation of the free market. Changes in social policy have broadly kept pace with changes in the labor market, such as the proportion of dual-income families, the proportion of women working part-time and the greater incidence of single-parent
families. This has been aided by the government’s minimum wage policy. A particular focus of social policy has been support for middle-income families with school age children. This has been achieved through changes to the tax system to ensure that women returning to the labor force are not financially disadvantaged.

While the welfare system provides benefits with no time limit, payment levels are quite low, particularly for unemployment benefit recipients. This policy thus has only limited beneficial effects. Family payments, by contrast, have grown in recent years and have been very successful in reducing poverty among families with dependent children.

In education, policy broadly promotes social cohesion, although not all policies in this area are positive contributors. Federal government subsidies to non-government primary and secondary schools have grown substantially since 1996, and the proportion of higher education seats subject to substantial upfront fees has increased after policy changes – most notably in 2005 – gave higher education institutions greater freedom to charge such fees. Nonetheless, access to quality education at all levels is reasonably good in Australia. For example, the Higher Education Contribution Scheme has been successful in increasing the share of the cost of higher education borne by students without adversely affecting access to higher education by students of relatively low socioeconomic status.

**Family policy**

The government’s family policy appears torn between the encouragement of economic opportunity for women and the belief that they should be responsible for the home. While many women have entered paid employment over the last three decades, on average, women are still responsible for the bulk of parenting and unpaid domestic labor. The Household, Income and Labor Dynamics (HILDA) Survey for 2001 shows that in households in which both partners are in full-time paid work, women do an average of 14.3 hours per week of unpaid housework, compared to an average of only six hours done by men. Moreover, women in full-time paid work do more unpaid work at home than men even if their partners work part-time or are unemployed.

Family support policies to redress this imbalance are limited, and under the previous federal government were geared towards tax rebates upon the birth of a baby (the so-called “baby bonus”). Australia has a very low incidence of paid maternity leave, with only about a third of Australian women able to access such leave in any form. The majority of these women work in the public sector.
or for large companies. Child care provision is inadequate and usually very costly, with many children on long waiting lists for child care places.

Annotation:

**Pension policy**

Historically, the dominant source of income for retirees in Australia has been a flat-rate, universal (but means-tested) and tax-funded social security payment, known as the Age Pension. There has never been an employment-related national pension plan in Australia. Private pensions (known in Australia as superannuation) were relatively uncommon prior to the 1990s, being largely confined to well-paid employees. Concerned by a low national savings rate and the implications of financing the retirement of the baby boom cohort, in 1992 the government legislated that employers must pay a percentage of their employees’ earnings into an approved superannuation fund. Initially set at 3 percent of gross earnings, this mandatory contribution had risen by 2002 to its current level of 9 percent.

Currently, most retirees still depend on the Age Pension, which is set at a relatively low level and is not effective in preventing poverty. Dependence on the Age Pension will decline over time, which will both reduce financial hardship in retirement and reduce the program’s fiscal demands. Nevertheless a significant part of the population will continue to rely on the Age Pension, existing on very limited resources. Indeed, the 9 percent superannuation contribution rate is widely regarded as inadequate for low-wage workers, failing to provide for a reasonable standard of living in retirement even in conjunction with Age Pension payments.

On introducing compulsory retirement saving in 1992, the Labor government then in power intended the contribution rate ultimately to reach 12 percent, but the Howard government subsequently preferred a “carrots over sticks” approach to increasing private retirement savings. Its emphasis was instead on providing tax concessions and other incentives to increase retirement savings. This approach has been ineffective in promoting self-reliance in retirement among low-to-middle income persons, almost all of whom contribute only at the compulsory minimum rate. Most of the response to the incentives has come from high-income persons.
Although this pension policy will in the long term tend to reduce intergenerational inequity, in the current transitional phase employees are being required to “pay twice,” by simultaneously saving for their own retirement and paying the pensions of current retirees through taxation. The government is making its own contribution to pension sustainability through the sales of publicly owned assets, the proceeds of which are being set aside in a “Future Fund” designed to meet future public-sector employee pension commitments.

C Security and integration policy

Security policy

External security

Score: 8

External security is maintained through the Australian Defense Force (ADF), which since the abolition of conscription in 1972 has been an all-volunteer force broadly representative of Australian society. The ADF has been highly effective in a range of peacekeeping operations across the world, notably in East Timor in 1999 following the referendum vote to support independence. The ADF was also part of the coalition which invaded Afghanistan in 2001, and a member of the coalition in the Gulf War of 1990 – 1991 and the invasion of Iraq in 2003. The ADF also has a role in supporting the customs authorities to secure the borders of northern Australia, in supporting the civil authorities in the reconstruction of aboriginal communities, and in counterterrorism activities.

Since World War II, Australia has also relied for its external security on its alliance with the United States, formalized since 1951 in the Australia, New Zealand, United States Security (or ANZUS) Treaty. Military expenditure is not large in absolute terms, reflecting Australia’s comparatively small population; however, the share of central government expenditure for defense is the fifth largest among OECD nations. It is generally regarded as adequate relative to perceived regional threats and to current demands made upon the defense force. Australia’s military has continuously played a significant role in the South Pacific, having intervened in several conflicts and other destabilizing events in the region in recent years.

Internal security

Score: 8

Prior to the 9/11 attacks in the United States, there were few perceived internal security threats. The Bali bombings in October 2002, which killed 202 people, 88 of them Australian, dramatically changed this environment. Despite taking place outside Australia’s borders, the bombings brought home the threat posed by terrorism in the post-9/11 world. In 2002 legislation was passed (and subsequently amended in 2003 and 2006) to enhance the Australian Security
Intelligence Organization’s (ASIO) capacity to combat terrorism, by authorizing it to question persons related to terrorism investigations, and providing the power to seize assets. ASIO officers do not have powers of arrest, and in operations they are assisted by the Australian Federal Police (AFP). Aside from the latter’s activities, which are largely focused on cross-border crime, drug smuggling, money laundering, human trafficking and terrorism, internal security is largely the responsibility of the states. There is correspondingly some regional variation in policies and outcomes. However, in most states crime rates are relatively low. The proportion of households experiencing crime each year has fallen over the last decade, suggesting that public order and safety policy has been somewhat effective.

Coordination between various policing, enforcement and intelligence-gathering authorities is generally satisfactory. In particular, state police forces have well-established and effective protocols for the exchange of information and the coordination of law enforcement activities across state and territory boundaries. The National Counter-Terrorism Committee (NCTC) was established in 2002 to contribute to internal security by coordinating a nationwide cooperative framework to counter terrorism and its consequences. The committee meets twice a year and is comprised of representatives from the Australian federal government, states and territories. Terrorism still rates highly as a public concern and was the focus of a number of policy announcements during the period of this review. Several arrests of persons purportedly planning terrorist attacks or supporting terrorist groups have been made.

As a relatively small country with limited ability to fund military resources, Australia has historically sought engagement and cooperation with other countries as a strategy for pursuing its interests and maintaining security in its region. Development aid, while low (0.25 percent of gross national income), is targeted at countries in the region. Australia is also actively involved in promoting stable democratic governments in the small countries in its region as evinced by its significant police and/or military presence in Papua New Guinea, the Solomon Islands, Tonga and Vanuatu, all of which have fragile democracies and tenuous holds on public order and safety.

The Australian government and its security agencies have also sought close engagement with other countries in the region to counter terrorism. The primary emphasis has been on relations with Indonesia, the closest, largest and predominately Muslim neighboring country. Several terrorist attacks have taken place in Indonesia in the last five years, some of which have targeted Australians. Assessments of the effectiveness of coordination with Indonesian authorities are difficult to make, but objective data on Indonesian arrests and
convictions of perpetrators of the terrorist acts suggest a strong commitment on
the part of the Indonesian government to combat terrorism.

Internally, Australia’s government has been relatively responsive to the
perception of new terrorism threats since 2001, which is unsurprising given the
electoral benefits this strategy has reaped. Various new measures have been
undertaken, including legislative changes and additional allocations of security
and military resources.

Integration policy

Along with Israel and the United States, Australia has maintained one of the
largest immigration programs on a per capita basis in the world. Currently more
than two out of every seven Australians were born overseas. A postwar
program initially aimed at attracting migrants from the United Kingdom was
subsequently expanded to other parts of Europe. From 1973, with the formal
end of the White Australia Policy, immigration became open to persons from
all countries. Most recently, the immigration program has been aimed at
attracting economic migrants and temporary, skilled migrants, particularly to
outlying regions, to cope with skilled labor shortages in the natural resources
industry.

Central to immigration policies has been the goal of integrating migrants into
Australian society. In recent times, the emphasis on integration has shifted
focus, however. Prior to July 2007, all immigrants who held permanent resident
visas (a majority of immigrants) were eligible to become Australian citizens
after two years of residency in Australia. As of July 2007, citizenship
requirements have been tightened, however. This will ultimately reduce
immigrants’ participation in government elections, since citizenship is a
prerequisite for voter eligibility, and will likely restrict immigrant access to
higher education and to government jobs. The policy changes include a new
emphasis on immigrants’ adoption of “core Australian values,” although there
does not appear to be a consensus in the Australian community about what
those core values comprise.

D Sustainability

Environmental policy

Environmental policy performance in Australia is somewhat mixed. The
comparative abundance of natural resources and low population density have
probably been important contributors to this unevenness, with energy policy in particular somewhat undeveloped. This is not to say that environmental issues are entirely ignored –indeed, on occasion, environmental issues have dominated public discussion. Furthermore, increased community acceptance of the fact of human-induced climate change in the last few years has led to a greater likelihood of substantive policy initiatives with regard to energy usage in the near future. For example, both major political parties have expressed support (if only in principle) for establishing a carbon emissions trading scheme. However, the government has been slow to act, arguing that reductions in greenhouse gas emissions will harm the Australian economy, and emphasizing in particular that Australia has substantial coal reserves and is a large exporter of coal. Failure throughout the period of this review to sign the Kyoto protocol was indicative of the now-ousted Coalition government’s policy.

More generally, ecological sustainability has not been a primary goal of economic policy. Nonetheless, as the driest continent on earth, Australia faces major challenges in this regard. Extensive land clearance over two centuries to support agriculture has resulted in major problems of land degradation and salinity, which only now are beginning to be addressed. Legislation in many of the states and territories now makes it more difficult to clear land of trees and vegetation, although research shows that the problems are still increasing despite reforestation, tree-planting programs and subsidies to farmers to increase biodiversity.

Managing scarce water resources is another problem. Current government policy is to take water management in the Murray-Darling Basin out of the hands of the states and territories, which have traditionally squabbled over and mismanaged water rights. The Murray-Darling Basin drains one-seventh of the Australian land mass and is the country’s most significant agricultural area; over 70 percent of Australia’s irrigation resources are concentrated there and it produces 40 percent of the nation’s food.

Research and innovation policy

In the absence of a tradition of private sector involvement, government has traditionally played a major role in fostering research and innovation. There have been a series of broadly welcomed programs over the last decade aimed at strengthening research infrastructure and facilitating business innovation through tools such as R&D grants and venture capital or technology diffusion. Critics have pointed out, however, that these steps merely redress the decline in
education spending in the 1990s.

Private sector R&D expenditures and outputs have meanwhile been consistently lower than desired. This reflects in part the relatively small magnitude of the incentives provided by the government. It may also partly be a function of the industrial structure of the Australian economy, which has comparatively little in the way of high-tech manufacturing industries.

**Education policy**

The federal government has direct responsibility for higher education only. Primary and secondary school education, as well as vocational education, are the responsibility of state governments. However, state school and vocational training systems are broadly similar across the country. Education is generally of a high quality. Equity of access is also good. This is true even for higher education, where course fees are significant, because of a universally available student loan scheme, in which loans carry a zero real rate of interest and repayments are required only when personal income exceeds a certain threshold. Inequities do arise in access to federally-subsidized non-state secondary schools, which offer a high quality of education, but often charge high fees.

High school completion rates increased dramatically in the 1980s and early 1990s, but are still relatively low at approximately 80 percent. Higher education enrollments also grew dramatically from the late 1980s to the mid-1990s. Despite this, employer groups and other commentators have been bemoaning a lack of suitably skilled labor in Australia for several years, calling for greater government efforts to increase skill levels. Much of the focus has been on vocational education and training. Government responses to date have been muted, however. Total public spending on education has been declining, in contrast to trends elsewhere, with private sources making up the shortfall. Australia has also lagged behind other comparable countries in school retention rates, and vocational education and training has been underfunded, largely as a consequence of disputes over financial responsibility between the Commonwealth and the states and territories. The government has begun to address issues of underfunding in higher education and the overreliance on overseas students as a source of funds for universities.
## Management Index

### I. Executive Capacity

<table>
<thead>
<tr>
<th>Cabinet composition</th>
<th>Prime minister</th>
<th>Parties in government</th>
<th>Type</th>
<th>Mode of termination</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>John Howard</td>
<td>Liberal Party (Lib)The Nationals (Nat)</td>
<td>Coalition government, but in essence a single party government</td>
<td>1</td>
<td>01/05-12/07</td>
</tr>
</tbody>
</table>

*The following modes of termination should be distinguished: elections = 1; voluntary resignation of the prime minister = 2; resignation of prime minister due to health reasons = 3; dissension within cabinet (coalition breaks up) = 4; lack of parliamentary support = 5; intervention by head of state = 6; broadening of the coalition = 7.*

### A Steering capability: preparing and formulating policies

#### Strategic capacity

There is no shortage of infrastructure for strategic planning. For example, public service departments, which provide advice to government ministers, have substantial resources for researching policy options and their likely outcomes and effects. A key locus for coordinating these efforts is the Department of Prime Minister and Cabinet (DPMC). Originally established as a small group to support the prime minister (PM) and the cabinet, this department is now pre-eminent in terms of policy development. It deals with the coordination of government administration, assistance to the cabinet and its committees, policy advice and administrative support to the PM, intergovernmental relations and communications with state and territory governments, and even ceremonial government activities and hospitality.

The DPMC also carries responsibility for policy coordination, seeking to ensure that the PM has the best possible advice by drawing from and
consulting with sources across the whole of the government. However, while the DPMC plays a pivotal role in government strategic planning and has played a key role in most of the major, high-profile policy initiatives of recent years, the very high frequency of contact between departmental staff and ministers cannot be used to infer a high level of strategic planning, because of the multiple functions of the DPMC.

Other ministerial departments are independently required to have an ongoing strategic plan providing the basis for financial planning and resource allocation. Each minister, along with the department or agency head, is part of the strategic planning group. Additional examples of long-term strategic planning include the Intergenerational Reports, produced by the Treasury Department in 2003 and 2007, which consider in detail the government’s fiscal outlook over the long term and the sustainability of economic growth. Nevertheless, many government policies seem to be opportunistic political decisions with little forethought beyond immediate electoral payoffs.

The government has long relied on academic experts to assist in policy-making, although their real influence on government decision-making is debatable. Prior to the 1990s, many of these scientific experts were public servants and employed in government-funded organizations charged with undertaking fundamental research like the Commonwealth Scientific and Research Organization (CSIRO) established in 1926. In recent years, many of these organizations have been abolished, their budgets reduced, or their mission changed to focus on more immediate concerns. Now the public service must rely more directly on external sources, especially universities, to provide expert advice. In areas such as economic and social policy, the influence of academic experts is probably lowest, whereas in matters of medicine, science and technology, their influence is stronger. Academics likely have a stronger influence on departments and agencies than on top levels of government. For example, the Productivity Commission, which provides advice to the government on microeconomic policy, regularly draws on the expertise of academics in producing its reports and recommendations.

Inter-ministerial coordination

The DPMC is responsible for policy coordination, and as such evaluates and provides advice on all major line ministry proposals. This department has significant resources, and has authority to draw from, and consult with, appropriate sources across the whole of the government system.

The DPMC officially seeks advice and takes account of all relevant
viewpoints from public service departments and ministries, with the aim of policy coordination. However, over the last decade, it has assumed increasingly centralized power. Even other government departments may have their information and advice rejected. Advice coming from non-governmental organizations is strongly filtered by this central bureaucratic process.

**Line ministries**

There are few formal requirements for line ministries to involve the DPMC in the preparation of policy proposals, but in fact most policy proposals are initiated by the political leadership. The DPMC and the relevant department must each agree on a policy before it can be tabled in cabinet or considered by the relevant minister or ministers. No major policy proposal will succeed without the support of the PM. There are therefore strong incentives to involve the DPMC in policy proposal development from an early stage. Non-major policy initiatives do not need to be presented to the cabinet if all relevant ministers agree to its implementation.

**Cabinet committees**

The cabinet has several subcommittees. Since 2001 these have included the National Security, the Employment and Infrastructure, the Expenditure Review, the Parliamentary Business, the Policy and Priorities, and the Sustainable Environment subcommittees. The number and focus of committees may change slightly under the new Labor government elected in November 2007. Committees serve a purpose in dealing with highly sensitive issues such as revenue or security matters; the relatively routine, such as a government’s weekly parliamentary program; and business that is labor intensive or requires detailed consideration by a smaller group of ministers, such as a pre-budget expenditure review or an assessment of a government initiative’s likely environmental impact. The PM usually establishes a number of the standing cabinet committees, but additional committees, including ad hoc committees, may occasionally be set up for specific purposes, usually for a defined duration.

**Senior ministry officials**

Much of the minor government business (such as statutory appointments and routine decision-making) is dealt with outside of the cabinet by public servants and junior ministers, and the decisions are tabled as an addendum to cabinet papers. They are rarely raised for discussion, though the opportunity exists for cabinet members to do so. Public servants, led by the secretary of the DPMC, are responsible, in consultation with the prime minister, for drawing up cabinet agendas. However, as cabinet meetings are confidential, as is work undertaken by public servants in preparation for meetings, it is difficult to be precise on the proportion of agenda items that are prepared by senior public servants.
It is nonetheless clear that public servants play an important role in development of many policy proposals and do indeed filter out or settle many issues. It is common for departmental secretaries (civil servant line ministry heads) to attend cabinet meetings. Furthermore, there is a protocol for cabinet submissions that they be made at least five days prior to the cabinet meeting to allow sufficient time for ministers and their departmental staff to consider proposals.

There is generally a high level of coordination between line ministry public servants. In most cases this must involve the Department of Finance and the Treasury, since they are responsible for allocating resources to any new policy developments, and these demands must be reflected in the government’s spending and budget cycle. Where there are legal implications, there must be coordination with the Attorney General’s Department. Departments least likely to coordinate their activities across the government portfolio are Defense and Foreign Affairs and Trade.

Coordination between departments is effective when proposals are driven by the political leadership. In such situations, there is no ambiguity regarding the government’s commitment to the policy initiative. This produces a corresponding commitment on the part of civil servants to coordinate effectively, to ensure the proposal is rendered viable and can be competently implemented. While difficult to substantiate with objective evidence, it is nonetheless clear that coordination is less effective on policy matters initiated at the level of a minister or department. This reflects uncertainty among civil servants outside the proposing ministry as to the degree to which the political leadership supports the proposal, combined with inherent competition between departments for power, relevance and resources. It also reflects differences in culture and values across departments.

**Regulatory impact assessments**

Considerable resources are expended in projecting the socioeconomic costs of particular policies through regular regulatory impact assessments (RIAs). As in many countries, policymakers in Australia are committed to performing evidence-based assessments. These evaluations are generally conducted within the relevant department or agency, although sometimes the Treasury itself conducts modeling of particular policy outcomes if they are deemed to have special financial implications. There are also some RIA evaluations conducted by the Australian National Audit Office and the Productivity Commission, which select particular policies for detailed audit
and analysis. Both are independent statutory authorities responsible to Parliament. RIAs are generally restricted to new legislation, and are not systematically applied to existing legislation. Newly introduced in 2007 is a requirement that the Productivity Commission, traditionally responsible for advice and reports on microeconomic policy, undertake annual reviews of the impact of regulations on business. The review process is to operate on a five-year cycle, focusing on a different set of industries in each of the five years. But this commission does not assess regulatory impacts beyond the narrow domain of costs and inefficiencies faced by businesses.

The depth of the RIA process varies across the public service. Within certain areas, where the evaluation of an RIA is more straightforward – trade, health or food standards, for example – the RIA process is conducted in depth. In other areas, such as social policy or housing, where many variables are likely to affect the outcome, the RIA process is less intensive. The process is likely to be most detailed and effective in areas of major economic interest, such as consumer competition, where there are multiple interested parties, where competition may be restricted as a consequence of new regulation, or where the new legislation is likely to have a direct effect on citizens’ lives.

As the extent and depth of RIAs vary across the public service, the government requires RIAs to specify clear goals and to evaluate whether these goals can be achieved with a less substantial compliance burden by means other than legislation. In most cases, these assessments examine evidence supporting the feasibility of non-legislative options. For example, assessments of alternatives to the existing regulatory regime are an inherent part of the Productivity Commission review process.

The Liberal-National Coalition government, in power from 1996 to late 2007, was closely associated with business lobby groups. In particular, the Business Council of Australia, which represents 100 CEOs of Australia’s largest companies, was a very strong supporter of the government’s changes to industrial relations legislation. In contrast, the government was heavily criticized for muting the voices of other stakeholders, such as social and environmental interest groups, by reducing government funding if these groups spoke out on political affairs. In 2005 the government disbanded the Aboriginal and Torres Strait Islander Commission (ATSIC), a body elected by Indigenous Australian communities to represent their interests at the
federal level. ATSIC was replaced by the National Indigenous Council, a body appointed by the federal government to provide advice on Indigenous affairs. This move was widely criticized.

**Policy communication**

Governments have made considerable efforts to align their policy priorities with the messages that they communicate to the public. This was particularly true under the post-1996 Coalition government. The consistency in communication has been aided by very strong party discipline and a tradition of intolerance of dissent within the parties, by strong adherence to the Westminster doctrine of collective cabinet responsibility, and by an activist mass media and political opposition which has sought to exploit any apparent policy divisions within government. On rare occasions, individual members of the governing party have taken a dissenting position and “crossed the floor” to vote against the government. This has been more common for members of the National Party, the smaller of the two parties in the coalition government. Interdepartmental coordination of government public communications is high. It is rare for contradictory statements to be issued or for ministers to contradict one another. This reflects tight control by the PM and the cabinet of all major policy announcements.

## B Resource efficiency: implementing policies

<table>
<thead>
<tr>
<th>Total</th>
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<tbody>
<tr>
<td>Bills envisaged in the government’s work program</td>
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</tr>
<tr>
<td>Government-sponsored bills adopted</td>
<td>378</td>
</tr>
<tr>
<td>Second chamber vetos</td>
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<tr>
<td>Head of state vetos</td>
<td>-</td>
</tr>
<tr>
<td>Court vetos</td>
<td>1</td>
</tr>
</tbody>
</table>

**Effective implementation**

After 2004, the government had a majority in both the lower and upper houses of parliament, and therefore had no difficulty in implementing its legislative program. In theory, the upper house, the Senate, has a strong power of veto over government legislation and has traditionally used that
veto to amend or reject government legislation, but this power remained unused during this review period. One complicating factor in the government’s legislative program is the relationship with the states and territories under the federal system. While the Commonwealth has the power to override the states and territories in many areas, it typically endeavors to win states’ agreement before implementing legislation that affects them. In some areas, such as Indigenous affairs or water resources, this has proved to be problematic.

Strong party discipline and adherence to the Westminster doctrine of collective cabinet responsibility ensure that ministers have strong incentives to implement the government’s program rather than follow their own self interest. In addition, the increasingly predominant role of the prime minister in all parliamentary systems, and not least Australia’s, has increased this tendency.

The cabinet – itself essentially controlled by the prime minister – meets regularly, and must approve all major policy initiatives. There is strong central oversight of the line ministries by the Department of Prime Minister and Cabinet (DPMC), which reports directly to the prime minister. Requests by the prime minister or cabinet for information from other government departments are always complied with.

Ministries’ performance in monitoring the activities of executive agencies varies, in part due to differences in the degree of independence granted to agencies. For example, central bank independence is key to the credibility of monetary policy and is legislatively protected, which constrains Parliament’s capacity to monitor the agency. Nevertheless, the general pattern over the last decade has been one of increasing accountability of the 170-plus statutory authorities and officeholders to the relevant federal ministers. In 2002 the government commissioned a review of the corporate governance of Commonwealth statutory authorities and officeholders. The objective of the review was to identify potential problems with existing governance arrangements and provide options for the government to improve the performance of statutory authorities, officeholders and frameworks of accountability. The review was completed in 2004 and a number of its recommendations have since been adopted.

Australia presents an extreme example of horizontal fiscal imbalance. This results in an almost complete dependence of the states on the Commonwealth to finance their myriad of services, including primary, secondary and vocational education, police and justice systems, public transport, roads, and many health services. This dependence has been a source of much conflict.
Subnational governments often claim they are not given the resources to carry out their responsibilities effectively. A commitment by the federal government to pass on to the states all revenue raised by a broad-based consumption tax introduced in 2000 has done little to diminish tension between the two levels of government. State governments’ revenue sources are limited to land taxes, payroll taxes, stamp duties and debits taxes. Other taxes collected at the federal level are distributed by the Commonwealth Grants Commission (CGC) and through specific-purpose payments.

The constitutional powers of Australia’s six state governments are very strong. Each state may make its own laws over matters not controlled by the federal government, and each has its own constitution, legislature, executive and judiciary. However, the financial dependence of the states commonly produces situations where they are frustrated in trying to implement policies in which formally they have constitutional power. The federal government for the most part formally respects state governments’ constitutional scope of discretion. However, the federal government has on a number of occasions attempted to exploit its fiscal might to coerce state governments either to relinquish powers or to adopt policies favored by the central government. For example, three of the states effectively relinquished their powers over water in the Murray-Darling basin in 2007, in return for a financial contribution for water management from the federal government. Apart from that, a number of states have in recent years received additional funding in return for certain changes to their education systems.

Although the state governments historically have had inconsistent or incompatible policies, there is today little variation in the standards of their social services and infrastructure. The CGC has been effective in ensuring reasonable consistency across state services and living standards. The commission makes recommendations on financial grants to the six states, the Australian Capital Territory and the Northern Territory, as well as on the financing of works and services in other Australian territories. These grants are funded by general federal revenue, and are based in part on relative population figures.
### Domestic adaptability

Successive governments have shown strong commitment to adapting domestic political institutions so that they conform to accepted international standards, and to treaties and conventions to which Australia is a signatory. This has been the case particularly in the areas of human rights, anti-discrimination and transnational crime, where Australia has been a regional leader. The only major treaty in recent years to which Australia has not been a signatory is the Kyoto Agreement on climate change. With regard to government structures, however, reform processes are essentially driven by domestic imperatives and are largely insensitive to international and supranational developments. There have been few international developments in recent times perceived as requiring any adaptation of domestic structures with regard to the organization of or cooperation among ministries and the cabinet, or the relations between national and subnational units.

### External adaptability

Australia’s geographic isolation serves to limit its influence on international reform efforts. Nevertheless, its governments do seek to participate in international forums or organizations, including those focused on reform. The primary emphasis tends to be on the Asia-Pacific region, although Australia is also an active participant and instigator of various international conventions, forums and activities beyond the Pacific region. In the areas of security, defense, crime, the environment, human rights and economic development Australia has been a leader in furthering international cooperation. Furthermore, Australia has been particularly active in the World Trade Organization in seeking to end tariff protections among the affluent countries and to liberalize international trade.

The Australian government has actively promoted a number of its domestic policies internationally, particularly in Southeast Asia and the South Pacific. The system of targeted social protection is considered appropriate for countries in Southeast Asia which currently have little or no system of social welfare. Other programs and services deemed to meet international best-practice standards include immigration and resettlement, public service
efficiency and integrity, anti-discrimination legislation and parliamentary procedures. However, efforts to export these practices are not clearly linked to domestic reform priorities. Rather, this tends to be a case of communicating existing domestic policies and institutions thought to work well.

D Institutional learning: structures of self-monitoring and reform

Organizational reform capacity

There is little in the way of formal processes to indicate that institutional arrangements are monitored regularly, but it is clear that such monitoring does on occasion occur. Periodically, institutional arrangements change, often manifesting as rearrangements and renaming of departments.

Recommendations that result from reviews of government are generally accepted and implemented. These investigations have covered all aspects of government responsibility, including finance, taxation, social welfare, defense, security and the environment. However, outcomes of reforms to institutional arrangements have been mixed. Some reforms have simply represented political repositioning rather than genuine strategic policy improvement. Other reforms clearly have improved strategic capacity. For example, the transfer of responsibility for working-age welfare recipients from the Department of Family and Community Services to the Department of Employment and Workplace Relations at the beginning of 2005 was consistent with the government’s policy goal of increasing welfare recipients’ participation in paid employment and of reducing the number of people on welfare rolls.

II. Executive accountability

E Citizens: evaluative and participatory competencies

Knowledge of government policy and political attitudes

The main means of informing the public about policy options are elections, as they are held under a system of compulsory voting. Australia conducts
state and territory elections every three or four years, and Commonwealth
elections every three years. The moderate level of understanding of
government policies indicated by opinion surveys increases substantially
during election campaigns, when the electorate gives such matters greater
attention. The Australian Election Study (AES) surveys show a high level of
policy knowledge on socioeconomic issues, which form the main area of
conflict between the main parties. Issues that are not regularly debated by
political elites, such as immigration, defense or foreign affairs, are less well
understood by the public.

F Parliament: information and control resources

Structures and resources of parliament, committees, parliamentary
partyes and deputies

<table>
<thead>
<tr>
<th>Number of deputies</th>
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<td>Number of parliamentary committees</td>
<td>18</td>
</tr>
<tr>
<td>Average number of committee members</td>
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</tr>
<tr>
<td>Average number of subcommittee members</td>
<td>-</td>
</tr>
<tr>
<td>Pro-government committee chairs appointed</td>
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</tr>
<tr>
<td>Deputy expert staff size</td>
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<td>Total parliamentary group expert support staff</td>
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<td>Total parliamentary expert support staff</td>
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Obtaining documents

Score: 9

The Federal Assembly, through its committees, has strong powers to require
the production of information by the executive arm of government, and to
require people to attend, including ministers. In practice, committees can
obtain virtually any government documents they require, except in instances
where documents contain matters that are commercial-in-confidence (e.g.,
containing confidential business information), or touch on certain aspects of
national security. A minister or other person who refuses to supply
documents requested can be held in contempt of Parliament.

Summoning ministers

Committees have the legal right to summon ministers to appear before
committee inquiries, but in practice compulsion to appear is uncommon.
Under the principle of comity, a house of Parliament does not seek to compel the attendance of members of that house or another house. It is common, however, for members, including ministers, to appear by invitation or by request before committees, to assist with committee inquiries.

Parliamentary committees conduct inquiries, to which experts are frequently invited to give evidence. Experts are also sometimes compelled to appear before committee inquiries. Public servants regularly attend meetings to provide evidence.

The number of parliamentary committees (18 plus joint committees) exceeds the number of government departments or ministries, of which there are 17. This is in part due the fact that there are a number of committees concerned with internal parliamentary matters such as parliamentary privileges, procedures and publications. In general, the task area of each “externally oriented” parliamentary committee is confined to one government department, although some government departments have more than one committee monitoring their activities. Usually, the demarcation between task areas of committees that oversee the same department is clear and does not create problems with conflicting activities or messages. However, this pattern is slightly complicated by the fact that each legislative house has its own set of committees, with a third set of joint standing committees composed of members of both houses. If only the standing committees of the House of Representatives are considered, the congruence between department and committee responsibility is very close.

The Australian National Audit Office (ANAO) supports the Auditor-General, who is responsible for providing auditing services to Parliament and to federal public sector agencies. The Auditor-General is an independent officer of Parliament. Similarly, the ANAO is accountable to Parliament, but it also has an independent status that enables it to collect and publish information that may be critical of the use of funds by governmental bodies. Each individual state government has an equivalent office of state audit.

A Commonwealth Ombudsman was established in 1977. It is an independent institution, with the ombudsman appointed by Parliament. The office’s services are available to anyone who has a complaint about a government agency which they have been unable to resolve. Its charter states that it will investigate complaints where appropriate, deal with complaints in an impartial and effective way and achieve fair outcomes, seek appropriate remedies, and promote improved administration by government agencies. Its services are free of charge.
G  Intermediary organizations: professional and advisory capacities

Media, parties and interest associations

The time devoted to substantive information on government decisions varies between television and radio stations. Commercial broadcasters devote relatively little time to such matters, but the state-owned broadcaster – which has one national television station and a number of radio stations – devotes a considerable amount of time to high-quality analysis of government decisions. The situation in the newspapers is similar to the electronic media, with the popular newspapers providing superficial coverage and the quality broadsheets providing balanced, in-depth coverage.

Fragmentation

Parliamentary election results as of 10/9/2004

<table>
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<tr>
<th>Name of party</th>
<th>Acronym</th>
<th>% of votes</th>
<th>% of mandates</th>
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<tbody>
<tr>
<td>Liberal Party</td>
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<td>Australian Labor Party</td>
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<td>The Nationals</td>
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<td>The Greens</td>
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<td>Family First Party</td>
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<td>Others</td>
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Party competence

Parties in the Australian electoral system create practical policy proposals based on their own political priorities. Both major political parties (the Liberal Party and the Labor Party) ground their policy proposals in serious
research, but their presentations to the public are as much concerned with image as with information. Minor political parties have fewer resources to develop their proposals, but some, such as the Greens, have undertaken major efforts to develop systematic, knowledge-based policies. For example, a report on dealing with the challenges of climate change and energy policy was released in 2007 by the Greens, and has had a significant influence on the policies of the major parties.

There are a number of interest associations that take a responsible and broad society-wide view in their policy advocacy positions. This is particularly true for associations that have extensive and long-standing connections with one or both of the major parties. This includes the primary union body, the Australian Council of Trade Unions, which is closely allied with the Labor Party, and several business associations and farmers’ groups which have connections to the Liberal or National parties. Many elected representatives have at some point in their career been a member of one of these groups, further cementing relations with the interest groups. There are in addition many groups that take extreme positions, but their political influence is minimal.

Groups closely aligned with one of the major parties have potentially a high degree of influence that is often not very transparent. It is rare for such groups to publicly propose policies that are subsequently taken up by government. Other groups release policy proposals that attract considerable media attention, but it is difficult to discern tangible effects of these proposals on government actions.
This country report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states.

More on the SGI 2009 at www.sgi-network.org

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