

# **Federalism: Commonwealth, State and Local Government Working Together**

## **John Cain Foundation Lecture, 27 November 2019**

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I acknowledge the traditional owners of the land on which we meet and offer respect to elders past, present and emerging.

I would like to focus this evening on four things:

1. Big ideas as the important drivers of policy and what governments do in response.
2. Australia's change of gears in the eighties when a new wave of policy driven by economics took over the national debate and confronted the Cain Government.
3. The problems which the public now realises have been created by the micro economic initiatives from this period.
4. The benefits of rediscovering federalism and local governance as we get back to the community level in delivering essential services.

John Cain became Premier in 1982 after a significant swing ended a long period of coalition occupancy of the Treasury benches. He gave way to Joan Kirner, who became Premier in August 1990.

The Cain government achieved government at a critical point in our history. The election of the Hawke Government in March 1983 began the second long wave of reform in Australia.

Significant macro and micro economic reform upended the foundations of the Victorian economy with only occasional attention by Canberra to a serious transition strategy for this state.

After the debacle of the great depression and the existential threat of the second world war which followed, both sides of politics nationally and at a state level had worked hard to repair the nation and grow its population.

In Victoria, the Bolte and Hamer Governments pursued a firm resolve to grow the whole state. They invested heavily in economic infrastructure, health, education and the cultural life of the state.

Canberra's enthusiasm, from the early eighties, for a new set of ideas, based in economics, to define the second wave of reform succeeded and complemented the earlier nation building era, as Australia opened itself up to the world.

The second wave went past these achievements and emphasised microeconomic reforms in pursuit of globalisation – the ideal against which populist insurgencies now assault many democratic governments in developed economies.

These days John Cain is mentioned most for his government's struggle to sustain the Victorian economy in the face of the ill winds of economic reform unleashed by Canberra without the context being explained.

Whether it was through the characterisation of attempts to bring forth investments in prospective new industries or to sustain a tough-minded approach to public sector efficiency in the face of budget pressures and union demands, the Cain Government faced criticism from many directions.

Support for it diminished as it worked up an essentially Keynesian response to economic decline imposed elsewhere.

The Cain Government also pursued the State's interests through engagement with Canberra. However, assumptions about federalism had started to change.

Under Menzies, Canberra had not actively sought the transfer of responsibilities from the states to the commonwealth. This changed under the Whitlam Government for example:

- major health care reforms including the Medibank Agreement,
- a strong role for the national government in education with the assumption of financial responsibility for universities, the creation of TAFE and state aid for non-government schools,
- the beginning of an interest in urban and regional development and investment in cities, even in suburban sewerage systems.

The Fraser Government attempted to walk back from this level of activism. It was also willing to allow more scope for the states to broaden their revenue base.

Subsequently, the Hawke Government had different ideas and sought to push further in the assertion of central power.

This has continued through several coalition and labor governments to the current day. Whole program areas have shifted to the Commonwealth, for example aged care and disability services.

The one government to stand firmly against this trend was the Bracks Government. A notable example, within his broad National Reform Agenda, was unwavering commitment to resisting the full takeover of the Murray Darling Basin by John Howard and his Water Minister, Malcolm Turnbull.

If the takeover had proceeded as planned, Victorian irrigators and their local communities would have suffered ruinous loss.

Many of the institutions previously responsible for service delivery have disappeared in the face of outsourcing of delivery to the private sector and not for profits. This in turn has rested on light handed regulation of markets within which clients, informed by their own needs, may choose from amongst competing providers.

Critically, the culture and values which defined the service organisations was neglected and then forgotten as was their ability to engage local communities and volunteers.

This outsourcing shift was starkly apparent in the early Howard years with the contracting out of employment services through periodic tender processes conducted by Canberra.

Both research by the Centre for Policy Development, as reported in “Grand Alibis” in 2015, and later analysis in a joint project with the Boston Consulting Group, reported in “Settling Better” in 2017, demonstrated the massive failure of a tender based, lightly regulated employment services system.

Those most affected adversely were the disadvantaged. The Commonwealth lost the plot on what effective service delivery looks like.

The starkest analysis of failure is emerging now through the Royal Commission into Aged Care, a system that Commissioners Lynelle Briggs and the late Richard Tracy said is “a sad and shocking system that diminishes Australia as a nation”. Aged care is now a Commonwealth mandate. The Briggs and Tracy interim report released in October was the toughest document I have read.

Very sadly, this is what happens when the Commonwealth cannot be or see beyond the contract gate.

It has escaped notice by those yet again calling our federation into question that the best examples of public sector service delivery at the national level are formal joint ventures between the Commonwealth and the States – public hospitals and schools. Each more efficient than their private equivalents.

Imagine what Federal Treasury would have done to Universities if the Commonwealth had achieved unqualified legislative control of their status and governance.

These sensitive areas exhibit the benefits of federalism identified in 2007 by Professors Anne Twomey and Glenn Withers in “Federalist Paper 1, Australia’s Federal Future”.

This was a report for the Council for the Australian Federation which comprised all Premiers and Chief Ministers.

In their letter of transmission to Premier Bracks, Professors Withers and Twomey reported:

*“...we have used political, legal and economic analysis and international comparisons to highlight that, far from being a burden, Australia’s federal system provides us with many economic and social benefits.*

*“For example, federalism:*

- divides and limits power, protecting the individual;*
- gives Australians a wider range of choices and allows policies and services to be tailored to meet the needs of communities;*  
*and*
- spurs all Australian governments to be more innovative and responsive.*

*Compared to centralised, unitary governments, federal nations such as Australia have:*

- more efficient governments; and*
- higher rates of economic growth and higher per capita GDP.”*

Professors Withers and Twomey summarised the benefits of federalism in the six “Cs” –

- Checks on power
- Choice and Diversity
- Customisation of policies
- Competition
- Creativity
- Co-operation.

In my judgement, developments since their report have demonstrated the wisdom of their analysis. Unfortunately, we have been sailing in the opposite direction in a leaky boat.

We now know that many are unhappy with the result from the last, nearly four decades of reform – the age of lightly regulated markets.

Citizens must seek to satisfy their basic needs with limited support and oversight from government agencies, while accepting greater self-reliance in changing and deregulated labour markets.

From attitudes research it is not surprising that we are now established on a descending or at least persistent distrust in our parliamentary and political institutions, dissatisfaction with government services and, more recently, a collapse in trust of large corporations.

In research undertaken by the Centre for Policy Development:

- 70% of Australians don't think their elected representatives are serving their interests.
- 75% of Australians believe our politics is fixated on short-term gains instead of longer term challenges.
- 76% of Australians think that we should have fewer career politicians in our parliaments
- A similar percentage believe our governments rely too much on contractors and consultants instead of investing in the public service. Quite incredibly, the APS is now the smallest it has been in 13 years. The corresponding boom for management consultants and labour hire companies is the Australian boom nobody talks about. It also diminishes our democracy.

The most recent report from an ABC survey of more than 50,000 Australians has even more starkly negative figures on trust in politicians and corporate leaders.

The 2019 Scanlon Social Cohesion Survey out yesterday confirms the stubbornly low levels of trust in the federal government to ‘do the right thing for the Australian people’, and rising concern for the issues it has not been able to tackle well at all, like climate change.

As these sentiments would suggest, we have reached a point where general public support for the second wave of reform based in economics has dissipated. Yet we are in aggregate prosperous and something of a national economic success story. Why then are so many Australians grumpy?

Consider the results from the second wave of reform. Seen from a community perspective:

- the proceeds of economic activity have shifted from families to business, with wages stagnant;
- the outsourcing of vital Commonwealth policy and service delivery functions to the private and NGO sectors has failed and it is clear Canberra knows this;
- reduction in the value of key benefits, such as those received by the unemployed, has left large numbers without dignity and hope;

- social housing for those displaced and impoverished by Commonwealth economic reforms was neglected while we led the world in rising house prices;
- the Commonwealth has been very late to recognize the consequences for our larger cities of rapid population growth flowing from the time of Peter Costello's Intergenerational Reports;
- too many corporations have become often unscrupulous rent seekers with little serious commitment to investing in R&D, product and service innovation and staff training (all of which are in aggregate decline across the private sector); and
- until recently, many of these corporations have been at the heart of deflecting attention at the political level from what most Australians believe is a must do reform – urgent attention to decarbonizing our economy.

This situation is the direct result of policies, based in a particular set of ideas, which have been used by large, private interests to advance policy settlements favoring the few over the many. They are not fundamentally the inevitable consequence of the sort of parliamentary democracy we have.

Despite the claims by the advocates of these policy settlements, the general cost of areas such as energy, education, VET, health care, aged care has increased while quality and effectiveness declines.

In the midst of this, States have been pressured to vacate the field to the Commonwealth Government or the private sector in critical service delivery areas.

It is worth considering why this is significant.

The Commonwealth apparatus of Government has evolved to the point in domestic policy where:

1. micro-economics and designing artificial markets fueled by public resources has devalued knowledge of actual service delivery and the ability it bestows to design effective and efficient delivery systems;
2. dominance in revenue raising is itself a sufficient license to dictate the shape and purpose of delivery systems; and
3. awash with voluminous delivery data, Canberra based departments and agencies feel free to ignore the messages available from this data.

Put another way, authority has been centralized in Canberra with very weak systems to track effectiveness and efficiency. Democratic accountability is weak and the needs of many hundreds of thousands of Australians are neglected. Our democracy is failing them.

What CPD has found is that Australians don't want to blow up their democracy, they want to save it. When Australians are asked what they think the main purpose of democracy is, the answer twice as popular as any other is: "ensuring people are treated fairly and equally, including the most vulnerable in our community". This is actually the Australian story from times past and it remains valid.

CPD has found Australians have a unique disposition towards democracy. Australians believe democracy is a force for fairness and equality and would throw their support behind changes that get government and the economy working better for the community. We share a desire to improve the lives of others and to tackle our biggest problems together.

Certainly, institutions and delivery need reform but this is best done in the light of agreement among Australians on where we are to go — what the light on the hill is, and where that light is.

The chance to mobilise Australia around missions was why we brought Mariana Mazzucato here last year. Mazzucato's work on public value and the entrepreneurial state doesn't pit government against business, unions or the community. It doesn't pit different levels of government against each other.

What it does provide is a framework for us all to agree on missions that we can have a crack at together. Focusing on missions allows us to solve some of Australia's biggest problems and renew trust in democracy at the same time.

Importantly, the missions focus helps to unleash the six "Cs" of federalism I mentioned earlier, especially creativity, cooperation and customisation.

In Australia I sense there is increasing acceptance of a larger role for government, including involvement in service delivery, more effective regulation and bolder policy initiatives.

Australians want government to be active and collaborative players, not just investors or market fixers. We know they support reinvestment in the delivery of essential services.

Interestingly, local government is now trusted more than the Commonwealth Government and along with State Governments must take up a stronger role in service delivery. This also fits with the six Cs from 2007 and the need for a new debate about how best to design a new way of achieving collaborative and respectful partnerships between the Commonwealth, States, Territories and Local Government.

The changes ahead will be comparable in their breadth to our national experience of economic and social reform from the early 80s to the late 90s. That period of immense change transformed Australia. Just like then, we're going to need fresh ideas.

Big, bold ideas which can drive new policies and the programs to foster a more sustainable economy and greater wellbeing across society.

Apart from new ideas we should revisit the benefits of the federation and reimagine the role of "places" in economic and social development and service delivery, including Local Government.

I believe **subsidiarity** is an imperative that can underpin success. It can rescue us from the technocratic mess we have created. I see it as a means of providing new respect for communities at the local level while equipping them with resources, strategies, systems and opportunities to work within local community and business networks and systems of democratic accountability.

Economies such as ours are now experiencing a new debate about localism (as it is described in the UK) or a broader role for city government or regions (this being the focus of the debate in the United States where the growing prominence of Mayors in national elections is an emerging trend). The Europeans have called this subsidiarity for some time. **Community deals** is another way of thinking about it.

This trend to **places**, rather than projects or people, has also begun to emerge in Australian public policy debates, which in turn draw on a more positive view of the public sector and its many institutions.

We have seen this over the past 12 months in the reviews done by Sandra McPhee into *jobactive*, by Peter Shergold in his review of settlement outcomes for refugees, and by David Thodey in his review of the APS, not yet released. The Shergold Review, just released, embraced locally based employment services, “founded on the principle of collective leadership, in which strategic partnerships are established with a range of locally based organisations. Together that cross-sectoral coalition should share accountabilities for measureable outcomes across identified employment pathways.”

Peter and I ran the APS from 2003 to 2011, under three Prime Ministers. It is significant that we are a unity ticket on localism. It is all about connecting flexibly at the local level with networks, service providers, local government and opportunities. By this means we can localize accountability and build connection and support for those who need it.

**Place** is a principle that can work for business, too, as we think about Australia's changing economic structure, the distribution of our population, and the challenges looming as we decarbonise our economy. Just yesterday, Jennifer Westacott, CEO of the Business Council of Australia, called for Australia to focus on places, not projects. Places like Geelong, Ballarat, Newcastle, Wollongong, Toowoomba and Busselton. Only last week, NSW announced a 3000-megawatt special renewable energy zone would be created around Dubbo.

CPD has been active on this front for some time. We have found that locally connected, place-based approaches to delivering critical services achieve better results.

Since last year, we have worked with the City of Wyndham to develop a new economic and social inclusion framework — the City has received State and Federal funding for a local employment trial. Done well, community deals like that in Wyndham require activity-based funding for recognised pathways to employment, not a tender-based model driven by price rather than results. They require Canberra letting go to a backbone institution at the local level. They also require an active role for government on the ground.

The current system is madness. We have buckets of money being spent by federal, state and local governments — and by charities — on the same people, without any coordination, often without local experience and usually with poor results. Coombs found in the mid-seventies that the Commonwealth needed to find a new way to operate at the local level. It has been a singular failure in delivery of social policy programs.

But we keep dancing around the most critical reforms. The Commonwealth announcement that jobactive contracts would be extended by two years to 2022 is a recent example.

It puts hard reforms into the too hard basket and permits a dysfunctional system to work against the hopes of unemployed Australians.

It also demonstrates the power of national stakeholders to work against the best interests of local communities.

The response from national stakeholders and Canberra to subsidiarity and a focus on places may be negative.

They should go back to the report sponsored by Steve Bracks on behalf of all Premiers and Chief Ministers, “Our Federal Future.” It describes the broad economic and social benefits of our federation.

I started this address with the circumstances confronting the Cain Government in the 80s. In the face of massive unexpected change, John might have said as Harold Macmillan did when asked what is most likely to blow governments off course:

“Events, my dear boy, events.”

Even so, many reforms initiated by John and his Ministers later proved to be of massive importance (although successors often took credit for them). Some examples:

- A new approach to funding hospitals initiated by David White and Leon L'Huillier which became Activity Based Funding as a national policy and made local governance and greater efficiency possible;
- Greater independence for government schools designed by Ian Cathie to encourage local innovation in tackling the needs of local communities and schools;
- A new Vocational Education and Training System with more independent TAFE's and a version of Activity Based Funding also initiated by Ian Cathie;
- Joan Kirner's environmental reforms,
- John's own partnership with George Brouwer and Ron Cullen in achieving massive reforms to the public service and its capability and, importantly, pioneering freedom of information requirements – which might now sensibly be extended within government and elsewhere, alongside new transparency reforms, to restore trust and credibility;
- The amazing foresight of Evan Walker and David Yencken in creating a bold new strategic concept of central Melbourne as a series of precincts:
  - educational,
  - health,
  - research,
  - retail (within a rejuvenated, low rise precinct wherever possible making use of heritage buildings),

- cultural,
  - sporting (including the decision to build the tennis centre), business and governmental
- all arranged in and around the Hoddle Grid. With plans for the development of Southbank and what became Docklands (and thus a return to valuing the Yarra); and
- John's own commitment to new liquor licensing and retail trading laws to animate the city.

By the way, NSW is still mystified by how Melbourne turned itself into the vibrant open city they wish Sydney could be.

So, yes “events, my dear boy (or girl)” were challenging and disruptive, but the innovation within Government actually achieved at the time of disruptive events was considerable and has endured.

And so, the new ideas are coming together but we need to throw ourselves into the debate about what is most important before our failure to do so permits the unexpected to blow governments off course or major stakeholder groups manufacture self-serving ideas for the next long wave of reform.

Federalism, subsidiarity, respect for local government and public enthusiasm for helping places around Australia to thrive economically and socially is the key to repairing the democratic vessel from which trust has leaked. This won't be easy. We will need to find new ways and ideas for working together on missions to set Australian communities up for success. There will be winners and losers. But Australians are up for it.

Thank you.