Out of the Bunker

Bob Hawke has discovered federalism, in the cause of 'micro-economic reform'. But Mark Latham argues that we're federal enough already. Dispersing power, not centralising it further, is the key.

After seven years in office, the Hawke government has discovered the idea of reforming Australia's federal system of government. This agenda is dominated by talk of micro-economic reform. Just as important for the Labor movement, however, is the need to give new meaning to the role of the public sector in Australia. The arguments for the new federalism should include devolving some of the powers of government to a local level. This is an important goal: giving local people more say in the public decisions that affect their lifestyles.

The Labor movement has never been able to reconcile policies for increasing the power and control of central government with its desire for greater personal freedoms and opportunities. Too often reform programs are administered by centralised bodies, insensitive to the needs of local communities. This can negate the purpose of reform itself. Large bureaucracies tend to ignore the rights and needs of people at the local level. The best way to increase the power of ordinary citizens is to ensure that decision making is dispersed to small-scale organisations.

There is an emerging trend in local government towards forums for public participation. In Sydney, for instance, precinct committees have been established at North Sydney, Waverley, Liverpool and Manly Councils. The great virtue of the precincts and other community forums is their ability to bring government within the reach of all residents. All manner of municipal issues can be addressed at these informal meetings each month in each suburb.

Precincts are the kind of initiative that provides an equality of opportunity to participate in the decisions locally which affect the style and quality of life. Experience shows how issues at precinct meetings are usually free from party politics. Activists in the precinct system are more likely to be disillusioned with the major parties. They regard community participation as an important remedy to the weaknesses of government.

Australian federalism has been stubbornly resistant to change. The founding arguments for federalism in 1901, about regional differences and rivalries, now look absurd. By any test, Australia is a relatively uniform nation - in temperament, language, ethnic mix and other indicators. Real differences are local, not between the states.
It is difficult to recall in Australian public life any intelligent argument for the redeeming features of federalism. Its real impact has been to sustain public sector inefficiencies and a fiscal imbalance between all levels of government. Internationally, federalism has been driven by geographical differences and rivalries. The world’s eight largest nations are organised on a federal basis. Other nations, however, have achieved better efficiency than Australia through the decentralisation of services.

No other federal system allows the national government to raise as much as 80% of public revenue. There are large costs in the duplication and administration of programs where funding comes from the Australian government yet services are provided by state and local governments. Bureaucracies are created which do nothing more than monitor the delivery of services by other bureaucracies. Unless governments are electorally responsible for funding their own services, the incentives needed for genuine efficiency will be absent. Passing the buck substitutes for public sector reform. Moreover, local autonomy will be enhanced as governments move towards self-sufficiency in their revenue base.

No other federal system has Australia’s concentration of service provision among the states. In each of West Germany, Switzerland, Canada and the United States, local authorities are responsible for a range of education, family welfare, housing and health services. By comparison, Australian local government is tiny, representing 6% of all public expenditure, against 23% in Switzerland and the United States and 20% in West Germany and Canada.

Local government in Australia is captive to state legislation. Just as the fiscal dominance of the federal government provides an easy option to cut state grants, state governments are comfortable in overloading local authorities. Local government has become a safety net for the service failures of insensitive state bureaucracies. Meanwhile, state politicians have legitimised their role by building large and centralised public administrations.

"Labor MPs need to adjust to the politics of giving power away"

The mass service areas of state education, health, housing, transport and law enforcement shelter almost 20% of Australia’s workforce. These services are provided uniformly across the state with little regard for local input and needs. Sectional interests have found it easy to preserve their privileges with bureaucracies of such size and centralised control. The inefficiency of state departments has forced affluent and middle Australia into private education and health care.

The administration of state services has grown beyond its economy of scale. The decisions which influence the provision of community facilities are remote from local consumers. This has produced a crisis of confidence in the public sector. Government services will be insensi-
tive while ever they lack a sense of ownership and control.

In the private sector consumers exercise choice through purchasing power. If a private company is losing consumers it has a clear incentive to reform management and lift performance. The absence of these incentives can make private monopolies as inflexible as public monopolies. If consumers are not satisfied with government services they have few options for exercising choice. The great bulk of Australian families, if their income allowed, would seek private coverage in education and health. They already exercise that choice for transport and housing services, perhaps more than any other nation.

"The leadership of the ALP has failed to reform Australian federalism"

By the standards of consumer choice, the public sector in Australia only survives by virtue of government authority and monopoly. Before seeking its broader goals for reform, the Labor movement must first make sure the public sector is truly valued by the public. That means simulating a feeling of ownership and control by giving local people an input into the performance and provision of community services. The habit of uniform standards imposed from central offices simply aggravates discontent with the public sector. Public ownership should mean more than mandatory taxation.

Quite simply, people are dissatisfied with having to pay for things they cannot control. Taxation is resented most when government services are controlled centrally. The idea of fiscal equivalence comes from people funding services when they can see a benefit locally. The community will contribute most to those things it can control. This means offering forums for participation in the decisions of the public sector which impact on local amenities.

Federalism overseas offers alternatives for the devolution of community services. In Switzerland, for instance, it is argued that decentralisation makes government more efficient. The process of dispersing taxation powers and service functions secures a better response to local needs. The Swiss support for community involvement, which decentralisation makes possible, has tended to blur the distinction between private and public life. The product is a large amount of voluntary support for public activities. There are signs of a welfare society replacing the conventional welfare state.

The United States tradition for local self-government, dating from the democratic town meetings of colonial New England, has been achieved despite constitutional restrictions. Local government in the United States actually provides more services than state governments. The federal system is based on the decentralised provision of public goods. In Australia by contrast, state governments spend eight times the amount of local government.

The leadership of the ALP has failed to reform Australian federalism. The depressing record of federal referendums has made unattainable the goal of Hawke's 1979 Boyer Lectures to abolish the states. Before that, the efforts of the Whitlam government at regionalism were frustrated by Liberal-National state governments. In any case the last reform Australia needs is the creation of an extra tier of government.

In the 1990s, as the centenary of Federation approaches, the inequities and inefficiencies of Australian federalism will come under renewed focus. This debate, however, already runs the risk of having new federalism as the intention of all but the precise program of none. It will be another wasted opportunity in Australia if 2001 achieves no more constitutional change than the 1988 bicentenary. Nonetheless, the ALP need not wait 11 years for federal reforms. With Labor governments in Canberra and five of the states, it is possible to achieve lasting change within the existing provisions of the Constitution.

If the federal government is to govern in the interests of national economic growth, it must take responsibility for Australia's leading economic institutions and infrastructure. It already exercises power on trade and commerce, foreign investment, taxation, communications, banking and migration.

These responsibilities can be supplemented by the states using the transfer of powers provision for industrial relations, freight transport, electricity grids, non-bank financial institutions, business laws and accident insurance. This device, provided by section 51 (XXXVII) of the Constitution, has not been frequently used. An example was the transfer to the federal government of the Tasmanian and South Australian railways in 1975.

If Labor is to govern locally in the interests of the community then it must disperse the control of services
into the community. During the 1960s and 1970s the functions of federal and state governments expanded exponentially. They took on new responsibilities, such as ethnic affairs, child care, consumer affairs and aged services. In particular, the federal government increased its involvement in community programs. This meant bypassing the states with grants for local government. Local authorities were incorporated into federal policies through grants for ‘eligible organisations’.

These initiatives, with the years in which funding commenced, are listed in Fig 1. Although several programs have been discontinued, they show the immense scope by which basic services can be administered at the local level. In Australia, the decentralisation of service delivery has occurred only within the limits of federal funding and policy control.

The Local Retreat

(Year indicates date of transfer of service to federal sphere)

- home nursing 1965/66
- aged or disabled persons homes 1967/68
- delivered meals 1969/70
- home care services 1969/70
- handicapped persons assistance 1972/73
- child care 1973/74
- Aboriginal advancement 1973/74
- community health program 1973/74
- community arts grants 1973/74
- national estate grants 1973/74
- area improvement (open space and natural environment) 1973/74
- leisure facilities program 1973/74
- regional employment development (RED scheme) 1974
- nursing home administration 1974/75
- homeless persons assistance 1975/76
- community housing program 1984/85

The ALP should develop a full agenda for the local provision of services. This will mean a direct role for local government in aged services, public housing, bus transport, community health, arts and local heritage, employment schemes, leisure facilities and family support services. In other areas, state governments should decentralise the control of local services. Public participation should precede the construction of new facilities and monitor the performance of existing services. There is no barrier to state bureaucracies using the precinct network to achieve these goals.

In education, for instance, local parents should have a role in the administration of schools and assessing the performance of staff. This is the basis of public sector ownership: local consumers linking the performance of public servants to financial rewards and incentives. Local communities have a range of managerial and financial skills which can assist decision making in schools and other public bodies. Global budgeting also allows the community to determine the resource mix needed to maximise local benefits. An autonomy is granted to each local authority, the size and influence of the central bureaucracy can be reduced.

These reforms will be most effective if set against greater fiscal balance within the federal system. The federal government should shed part of its funding role for basic services by encouraging the states to raise income and consumption taxes. Local government can broaden its revenue base through the introduction of betterment charges, windfall taxes and an increased share of income taxation. The federal and state governments should provide fewer services themselves and, instead, focus on their role as a clearing house for grants which target the problems of regional inequality. A balance will need to be reached between these twin goals: the need for local autonomy and the redistributive role of regional funding. The use of untied grants is a worthy starting point.

Local government can be a testing ground for ALP programs which respond to changing community needs. The search for new forms of service delivery involves not just decentralisation, but new forms of governing. Labor parliamentarians will need to adjust to the politics of giving power away. This brings new challenges at a local level. Occasionally resources will be misused locally and power abused. Local government will need to lift its standards for public participation and sound management. These obstacles aside, a system of government which is sensitive to local needs and involves local people in public decision making should be valued by the Labor movement. The imperfect wishes of the community are usually better than the imperfect decisions of government.

It is possible for ALP state governments to transfer a range of functions to local government. Already there are signs that the debate about new federal arrangements will ignore this option. Local choice and autonomy fosters community pride and identity. It stimulates a feeling of ownership in the public sector. This is an essential part of government services responding to local needs. When the control of services is dispersed, politicians have to be more specific in their programs. In such situations there is a greater chance of the public sector meeting the wishes of the people than the case of large centralised government.

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