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# Inter-Government Relations - A Social Democratic Perspective

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Paper

May 2010

All too often the left has made the mistake of assuming that history is on its side. Indeed, it certainly seemed the case in the years that followed the Second World War when both the democratic left and the communist left had significant influence over the conduct of government. However, Communism has now collapsed under the weight of its own inefficiencies and injustices and the democratic left has undergone significant revision not just away from its original belief in public ownership but also from its Croslandite commitment to substantive equality. Inasmuch as there is residual ideology it is captured by the pragmatic politics of the "third way".

None of this should come as a surprise. The belief that democratic politics could be overwhelmed and sustained by "One Big Idea" was always fanciful. We live in an era of citizens, ideas and policies rather than classes, ideologies and social transformation. Certainly, a bias in the direction of the market is discernible in contemporary policy making but its fundamentalist variant in the form of unfettered globalisation has always met significant resistance. The truth is that democratic politics is both messy and complex. It forces negotiation and demands compromise. It provides opportunities for the left and the right of the political spectrum. It embraces leadership but controls its exercise. It is as local as it is national and international. In a federal system like Australia's this is a particularly important point with intergovernmental relations being as important to good outcomes as what happens within government itself. This raises the question: is there a specifically left-of-centre approach to the way Australian governments should relate to each other? On what basis and to what ends should they relate?

For a large part of the twentieth-century the consensus on the left has been in favour of increasing the power of the Commonwealth. The States were seen as colonial residues with malapportioned electoral systems and property-based upper Houses. The Commonwealth on the other hand was seen to represent the Nation and its egalitarian aspirations. The experience of the Great Depression and the two World Wars further strengthened this view. It was propagated with much rigour and enthusiasm by national Labor leaders from John Curtin to Gough Whitlam. "States' Rights" versus "Centralism" became one of the dividing points of Australian politics.

Today the climate for debate about inter-governmental relations has changed. On the conservative side of politics support for increased powers for the Commonwealth has grown. There are a number of elements at play here -the so-called Culture Wars, the Business Council push for streamlined government and the re-emergence of nationalism as a powerful political force. There is, of course, a simpler way of describing this -"the politics of John Howard". He called it "aspirational nationalism" in his speech to the Millennium Forum in 2007. It is a view shared by the current Liberal Leader Tony Abbott. In his political tract *Battlelines*, he proposes a referendum to give the Commonwealth Parliament the same authority over the State as it has

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over the Territories. He describes the proposal as "no more than the minimum needed to tackle the dog's breakfast of divided responsibilities that's made the federation dysfunctional".

On the Labor side hostility towards federalism and the role it gives to the States has diminished. This is not just a reflection of political success at the State level but reflection of major changes in state government. Not only have the States largely cleaned up their act in respect of electoral and parliamentary systems some have been highly innovative in their practice of government. The creation of Anti-Corruption Commissions in three States and improved mechanisms for accountability overall have strengthened their credibility as has the practice of community cabinets, exercises in deliberative democracy and the promotion of community engagement generally. These improvements in democratic design and practice have paved the way for a social democratic version of "States' Rights" which all began with Don Dunstan and his vision of South Australia as a "social laboratory".

There is a clear intellectual and practical logic to these developments. Contemporary social democrats have embraced the marketplace and multiculturalism as opposed to state planning and "White Australia". If the economy and society should be characterised by competition and diversity why not the polity? If the liberal argument for diversity and competition is valid, why would it not also be valid for a political system? This is, of course, the case for federalism. In their brilliant paper prepared for the Council for the Australian Federation, Australia's Federal Future (2007), Ann Twomey and Glenn Withers put it this way:

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.

What's more, they say, federal nations have been shown to be more efficient and productive than their unitary and centralised counterparts.

All too often the critics of federalism write as if politics is a bad thing and that conflicts between the Commonwealth and the States are just about power. In fact such conflicts often involve crucial points of ideological and policy difference that should be aired and if not resolved through the ballot box they should be the basis for genuine dialogue and negotiation. It is also the case that different governments in Australia represent different interests and values and provide politically important platforms for their defence and promotion. This can be the case even if the same party is in power at the state and federal levels of government. Giving a legitimacy to intergovernmental politics provides an unseen but nevertheless important glue to our body politic. It doesn't preclude change but forces us to properly manage change as I would argue we did so well with the National Competition Policy of the 1990's.

It is true that as a result of favourable interpretations of the Constitution by the High Court and the ever-growing financial power, the Commonwealth has expanded its role way beyond what the Founding Fathers had in mind. Many areas of public policy that had been the sole province of the States are now matters of shared responsibility.

However, the States still play a major role in our system -as service providers, as regulators, as law-makers, as advocates, as facilitators and most, importantly, as initiators and partners in a range of national initiatives to promote productivity and participation. All too often commentary

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on the role of the States focuses on powers lost rather than powers possessed, both formal and informal. The truth is they are now well and truly entrenched in the development and implementation of national initiatives. This takes me to the so-called "third wave of reform" and the model of co-operative federalism developed to progress it.

The third wave differs from the earlier phases of reform with its incorporation of human capital and social inclusion alongside regulatory and competition reform as forces for productivity growth. The argument behind the addition of these elements is simple - a healthier and more skilled population is a more productive one. So too is productivity enhanced when those previously incapable or unwilling to participate in the labour market begin to play their part.

Although the focus is still very much on productivity -necessitated by the continuing and growing pressures of international competition and an ageing society -the terms and conditions of the debate have been widened significantly. It is as if the economic radicals became serious about health, education and social inclusion and the social radicals became serious about the labour market and employment policy. It is classic "third wave". The Age on 11 October 2007 Paul Smyth described the two converging policy fronts that have taken us to social inclusion as a primary objective of policy:

The first was more welfare related. State governments in particular have picked up on the point that poverty is more about an absence of money and that it is as much about a lack of skills, mental health, trust, social capital etc

The second front has opened up in economic policy. Increasingly the economic value of our human capital is being linked to its social foundation. If children, for example, grow up in a family without adequate income and without universal high-quality childcare and pre-school then their future economic participation will be poor.

Whilst some of the policy prescriptions to promote social inclusion and better health and education speak for themselves, not all do. This is an area of policy disagreement. Note, for example, the debates around mutual obligation and personal responsibility. However, what is not a matter for disagreement is the life-cycle approach that has been embraced to further this economic and social reform program. What it means is the development of specific interventions to deal with the key transition points in a person's life such as the all-important early years, schooling, and the move from school to work and from work to retirement. The early years are seen as particularly crucial. As the Government's own Budget Papers for 2008-9 put it:

Over the longer-term, early childhood education generates substantial cost savings from improved health and productivity and reduced expenditure on social services.

What we have, then, is a description of the problem and a general understanding of what needs to be done to fix it. As was the case in the 1990's many of the initiatives that would need to be taken to address the problem are the province of the States.

This takes us to the model of co-operative federalism that has been designed to engineer change today.

There is little doubt that the Rudd model of co-operative federalism is the most sophisticated to have occupied this space for some time. It is designed not just to facilitate the new reform agenda

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with its National Partnership Payments it also involves a major reform of the Specific Purpose Payments system of Commonwealth support for the States.

The number of Specific Purpose Payments have been reduced to six, new national agreements in the areas of health, early childhood development, schools, vocational education and training, disabilities services and housing. Rather than dictating how things should be done, it is intended that the new arrangements focus on agreed objectives and outcomes. Part of the agreement process will also be the clear identification of Commonwealth and State roles and responsibilities with only high-level strategic outputs critical to clarifying outcomes being specified. The agreements will be ongoing with independent assessment of performance to be undertaken by the COAG Reform Council. Such independent assessment is vital if there is to be accountability for performance.

The theme for this new system is simple and straightforward-unity over the objectives and significant autonomy for the States in respect of the means to achieve these outcomes. It is intended that the previous system of input controls will come to an end, being replaced by objectives, outcomes and strategic outputs. It has also been agreed that each Statement of Objectives and Outcomes attached to a National.

Agreement will need to address the issues of social inclusion, including responding to Indigenous social and economic disadvantage. In other words, social inclusion is not to be treated as an "add-on" but is to be integrated with mainstream policy objectives.

The National Partnership Payments to facilitate or reward reforms deemed to be of national significance will be an addition to the system of nationally agreed Agreements. Reform facilitation payments will be paid in advance of implementation in recognition of the costs involved in reform. Reform reward payments will not be paid to a State unless the COAG Reform Council certifies that certain performance benchmarks have been achieved. Some payments will also be made to the States to assist with discrete infrastructure projects. Indeed, one feature of the new model is that capital as well as recurrent expenditure is involved, the former via the newly established infrastructure funds (Building Australia Fund, Education Investment Fund, and Health and Hospital Fund).

One can see how some of the ideas associated with the microeconomic reform agenda of the 1990's have been incorporated into the new model. Firstly, there is a recognition of the need for flexibility in the delivery of change. Secondly, there is a system of incentive payments designed to encourage change. Thirdly, there is a process of independent monitoring by the COAG Reform Council.

However, there are a number of differences that need to be acknowledged and their implications examined. The first relates to the relationship between outputs and outcomes. In respect of the economic reform agenda of the 1990's it was agreed that microeconomic reform measures by State Governments and State Parliaments would promote productivity by way of increased competition and a greater reliance on market signals. In other words it was enough for all sides to agree on certain policy initiatives (or outputs) as it was assumed they would lead to the desired outcomes (increased productivity).

In respect of the current agenda the agreement is over outcomes and some high-level strategic outputs seen as necessary for those outcomes. However, in respect of the specific policies and

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programs that will lift and extend education standards, improve health outcomes and promote labour market participation there is the valid assumption that one size doesn't fit all. According to the theory it is the responsibility of the States to design policies and programs to suit their circumstances. They will be judged on their performance rather than the specific means they adopt to achieve it. Indeed by clarifying the roles and responsibilities in the context of a new financial agreement the States will be clearly accountable for their performance. They will be under pressure to reform.

In terms of transparency and process the Rudd version of co-operative federalism represents a major step forward. However, to work properly three conditions will have to be met. In the first place the Commonwealth will have to resist the temptation to move away from a purely outcomes-based accountability. Just how far will they take the concept of "high-level strategic outputs"? Already in the key areas of education and health we have seen this idea justify major interventions in areas that were once seen as prerogative of the States, such as curriculum development and hospital management.

In the second place improvements will be required in the quality and timeliness of the indicator data. It will be crucial that the indicators themselves are meaningful, relevant and simple if they are to inform the public and place pressure on the jurisdictions. In their initial reports the COAG Reform Council has highlighted this issue as requiring more attention.

In the third place the States and the Commonwealth will need to improve their policy making and policy delivery mechanisms. The Commonwealth is going to have to accept more accountability, for example in respect of its performance in primary health and aged care which have such an impact on the economics of the state-run hospital systems. They too will be in the spotlight as are the states and have been for some time. Indeed, the initial reports of the COAG Reform Council uncover important differences in levels of achievement across the country. This will intensify as the amount and quality of information improves.

For the States this is not going to be easy and adds a new and significant administrative burden to what they are doing. Getting the political and administrative balance right between its traditional work and the expanded level of work associated with the National Reform Agenda represents a major challenge to the Premiers and their control agencies particularly when you consider the distance (meant literally in the case of States like Western Australia) between an initiative agreed to at COAG and what actually happens on the frontline of service delivery. This leads me to the second major difference between the 1990's and today.

The competition reforms of the 1990's required action by governments and parliaments alone - introducing a purchaser-provider split, disaggregating and corporatising or privatising government utilities, removing restrictions on free trade and commerce and ensuring a level playing field between the government and private sectors. The financial incentives that were provided were to governments to do certain things. In an important sense it was a top-down government.

The third wave of national reform is quite different in that it seeks improved outcomes in health, education and employment. Not only is there the desire to lift standards generally, but also to tackle social exclusion. Issues like the incidence of chronic disease, the prevalence of common risk

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factors that contribute to disease, preventable morbidity and mortality, obesity and diabetes, literacy and numeracy, retention rates in education and the culture and capacities associated with work have become central to the productivity and participation agenda. And as noted earlier early childhood services have been elevated up the ladder of public policy priorities.

What is interesting about these issues is not just that there is fierce debate about what works and what doesn't work, none of them can be properly addressed without the engagement of the community and without recognising that a "one-size-fits-all" approach is doomed to fail. In fact when we speak of the community we need to acknowledge that we are really speaking about the many communities, some urban, some rural and some remote, that makes up each state. If the outcomes being sought are to be achieved engagement and specificity will be crucial. We are talking here about case and place management as well as the engagement of the private and non-government sectors at the national, state and local levels. It is an agenda that involves capacity-building as well as community involvement over agenda setting and service delivery.

In other words what is going to matter is not just the structure of inter-government relations and the funding model that will back it up, but also the ability of governments to involve the community, including business in its health, education and labour market agendas. Reform is going to involve partnerships between governments, individuals and communities, particularly in respect of social inclusion. Indeed, if the outcomes are going to be achieved the ability of the States to create and manage such partnerships is going to be crucial. They will need to be facilitators in the way they deliver their services throughout their jurisdictions. In other words, the governance aspects of the new reform agenda don't just involve inter-governmental agreements but will also require partnership agreements at the regional and local levels within each State.

In this context it is important to note that each of the States and Territories differ in their ability to engage at the local level. Some such as Western Australia have sophisticated and well managed Regional Authorities whilst others such as Victoria have stronger and larger local governments which can act as local facilitators. As many in regional Australia have observed excessive centralisation based in the major capital cities can be as stultifying as control from Canberra. Innovation in decentralisation and more localised place management of issues is going to have to become part of the federal fabric if it is to hold against the push to centralise power in Canberra.

I think we need to acknowledge that whilst Australian public institutions have been generally effective they have not been able to produce the same "equalising" efforts

as those of other democratic nations. Of course the social and economic backgrounds we have will have a strong influence on outcomes (such as levels of health and educational achievement) but the whole point of publicly funded services is to even these differences out as much as possible. Reversing some of these statistics, and the inequalities they represent, won't be possible with a continuation of the status quo. This is where the National Partnership Payments become crucial -they will need to be designed to promote the sorts of changes that will make the system more responsive to the needs and interests of the most disadvantaged in the community.

This leads me to another observation about the problems attached to the social inclusion agenda. Very rarely is it the case that complex agendas like this are given a free run within government. Usually they compete for time and resources with other agendas, in this case the more narrowly

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defined microeconomic reform agenda, a broader national security agenda which will come at significant cost, and, of course, the most diabolical of issues climate change. We know how microeconomic reform impacts on power and distribution and Professor Garnaut has been reminding us of how a reduction of our carbon imprint will have differential impacts through society. Perhaps it will be necessary to see social inclusion not just as a means to greater productivity but more as a part of a broader fairness agenda designed to hold society together in a time of change.

I say this in the context of experience of the first and second waves of economic reform. At that time there was a clearly defined reform narrative and a major effort to involve not just the levels of government but also the major economic interests in the reform process. Indeed the Accord with the trade union movement and the articulation of the idea of a Social Wage for working families was important glue.

However, even then it was difficult to contain the discontent that surrounded a change process dedicated to more fully exposing the economy to market risks. Significant interests, particularly in rural and regional Australia, felt they had no stake in the reform process and a sense of grievance emerged which remains a powerful force today.

The point I am making here is that the Rudd model of co-operative federalism faces the sort of risks associated with any model of performance management. Yes, it is a more comprehensive agenda and there are clearly defined objectives, precise measures of performance, and incentives for all levels of government to participate and an independent assessor to report to the nation on the achievement of the targets.

However, not only will the achievement of the particular goals themselves require the engagement of individuals and the community but so too will the success or otherwise of the project itself. It will require a justifying narrative that is widely understood and deft political management from the Commonwealth. Recognition of the institutions, interests and sentiments involved, in particular the States whatever their political colour, will be required if that narrative is to be sustainable.

Complicating all these matters is the overarching issue of federal-state finances. It was clear at the time the GST was established that it was a Commonwealth tax and it would only be a matter of time before it was raided by the Commonwealth Government. As I found out when Premier of Western Australia, Commonwealth State Agreements are not binding and all-too-often a budget pressure at the national level is passed onto the States as part of the biggest blame game of all, that which revolves around the question of who is best able to collect and spend money on behalf of the community. The fact that Western Australia hasn't signed up to the Health- Agreement is an indicator not just of the economic particulars (where 68 percent of the GST collected in WA leaves the State) but also of the stronger commitment there to federalism. The failure of WA to sign the new Health Agreement highlights the fact that a re-arrangement of roles and responsibilities in health should have come with a wider discussion of vertical fiscal imbalance and what it means for public policy making and implementation in Australia. Yes, the Rudd Government has advanced the cause of a new and more invigorated co-operative federalism built around the productivity, participation and social inclusion agenda but has held back from taking it through to its logical conclusion. Some things change but some things stay the same!