

5. Responding to Economic Globalisation: Strengthening and Centralising State Capacity

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Governance in Australia was transformed after 1983. In the face of a perceived economic crisis and weakened state capacity, major changes were progressively introduced which were designed to buttress governmental authority and rework the role of the state (e.g. Kelly, 1992; Pusey, 1991). The most fundamental change concerned the ends and means that framed conceptions of the state. A new narrative concerning the policy challenges presented by an open and globalised economic context was adopted by both major parties. In a decade, developmental and social policy frameworks that had been in place since Federation were overturned. Bipartisan endorsement was critical in the rapid implementation of this agenda.

The first administrative/organisational step involved a reframing of governmental structures, which was intended both to enhance central control and to extend the role of unfettered markets or quasi-market disciplines. Their influence was expanded through private and public sectors (Keating, 2004; Bell and Hindmoor, 2009; for a similar discussion in the British context, Gamble, 1988; for some of the unintended outcomes, Braithwaite, 2008).

This approach was adopted by both major parties as a remedy to the stagflation of the 1970s. Overly protected markets, overly rigid wage fixing, a sclerotic trade union movement, government services framed around the interests of producers not consumers and capture of programmes by rent seeking interests were held to be its principle cause (e.g. *Australia at the Cross Roads*). Change in public policy continues to unfold within this broad framework. This is evident in the ends adopted for - and the means used to achieve - outcomes in three key policy domains: the economy, the provision of public services and the welfare system. Whether these approaches are appropriate for managing the complex and distinctive issues that arise in remote Australia is the central concern of this report.

These changes were introduced through three broad phases: the first covered economic activities that were directly under Commonwealth control; later change was extended to areas like public utilities where state cooperation was required; then, from the late 1990s until the present, attention switched to social policy and human services. Micro-economic reform has provided the narrative thread. Through newly enhanced top-down authority, market or quasi market arrangements have been extended across the whole public sector, including to the delivery of public services. One of the claimed benefits was cost efficiencies. By recasting citizens as consumers, another claimed benefit was client empowerment. We will see later that, in the case of remote Australia at least, outcomes have been almost wholly problematic.

The following paragraphs explore in turn these three dimensions of change:

Strengthening the Central State: Centralised policy control was enhanced by budgetary, organisational and personnel changes that were designed to give the centre the language, technologies and administrative capacity to drive wider changes. As a first step, the control of ministers and key co-ordinating departments was strengthened. Within this framework, the focus has shifted progressively from economic structures and regulatory frameworks to, most recently, the delivery of human services. In addition, a strategic agency, the Productivity Commission, was repositioned and it has emerged as a principal steward of the forward agenda.

The move to stronger controls by ministers and coordinating departments occurred progressively. In 1983, the incoming Labour government inherited a report on public administration (Reid, 1983), which echoed a recurrent theme: how to increase the responsiveness of the public service to the elected government. In implementing this report, the authority and accountability of ministers, particularly senior ministers, was extended and the influence of the central departments (Treasury, Finance, Prime Minister and Cabinet) widened and consolidated. A number of budgetary and organisational steps reinforced these organisational changes.

The first development involved budgetary arrangements (Howard, 1986). Central agency control was reinforced through the Financial Management Improvement Program (FMIP). To better cost programs, forward estimates were introduced and to better focus on performance, budgets were recast in terms of programs and outcomes. Reporting against these indicators was also introduced. These changes all served to enhance the influence of the Finance and Treasury Departments. The influence of Treasury was further strengthened because, in the formation of the strategic agenda, the narrative of economic liberalisation cast this department in the critical role (e.g. Edwards, 1996).

In 1983 the government published a White Paper on the machinery of government (this and the subsequent developments are reviewed in detail in Nethercote, 1986). This foreshadowed a strengthened role for central agencies, a Senior Executive Service, and augmented resource allocation processes. These changes were embodied in a Public Service Act in 1984. One key step involved a new accountability structure for top executives. Permanent Heads were re-cast as departmental secretaries, serving at the pleasure of their ministers and with the concurrence of the prime minister. In future, these officers were to be appointed by ministers with the approval of the prime minister and after consultation with the chair of the (then) Public Service Board. A Senior Executive Service was also established with officers appointed on fixed term contracts. Again the focus on ministers was reinforced as promotion was at the discretion of departmental secretaries without the involvement of the Public Service Board, a step which was reinforced by its later abolition and its replacement by an advisory agency, the Public Sector Management Commission. In other words, the notion of a unified career service was considerably qualified and the influence of ministerial views and desires given significantly more weight in personnel appointments and decisions. This had substantial longer term implications for the orientations and loyalties of public managers. Based on notional productivity gains, across-the-board efficiency dividends were also introduced.

Another key structural step was taken in 1987, when inter-related policy functions were brought together in mega departments (Social Security, Employment and Workplace Relations etc) with senior and junior ministers dividing responsibilities for overall strategy and priorities and specific programs. This step created powerful departmental 'silos' at the peak of the national policy making system.

In addition, the adoption of budgeting via Portfolio Budget Statements required departments to undertake strategic and business planning. Moreover, a number of specialised regulatory functions were progressively spun off into separate agencies (e.g. ACCC; ASIC; Centrelink, Air Services Australia etc). For example in 2002, Centrelink had partnerships with 25 federal and state agencies, serviced 6.4 million customers from over 1000 service points and disbursed annually around \$55 billion or roughly one third of the Commonwealth budget (Halligan, 2008).

Finally, what is now the Productivity Commission increasingly assumed a much more prominent role in the development of the forward agenda. This agency became its primary source. The subsequent pattern of agenda change can be traced through its annual reports – from tariff reductions to privatisation, on to competition policy and contracting out, and turning progressively to more troubled areas at the heart of federal-state relations: health, transport, education as well as welfare and indigenous issues. The Commission also has important monitoring responsibilities. For example, the Commission prepares a biannual report on progress in indigenous development. Reflecting the implicit policy framework, this report focuses predominantly on individual circumstances and job-ready capacities. The most recent report fills some 750 pages (further discussed on page 99)

A liberalised economy: From roughly 1907 until 1983, the central government played a critical role in the development of industry and employment. This occurred via two mechanisms. First, industry development was largely based on tariffs. This created a substantial manufacturing sector, but one largely oriented to the domestic market. Second, public enterprises were a major source of employment. These included a major bank, two airlines, a shipping service, railways, transport, electricity generators and distributors etc.

From the late 1980s through to the mid 1990s, Commonwealth and State governments progressively withdrew from most of these activities. In the new neo-liberal narrative, public utilities were seen as cumbersome monopolies, retarded in their efficiency and responsiveness by the absence of bracing market pressures. Newly liberalised capital markets were assumed to be sufficiently mature and flexible to make the primary allocation decisions. We will see later that, in the case of remote Australia, this latter premise at least lacked realism.

In its rhetoric and in practice, the state also progressively withdrew from employment creation. In general, such programs were deemed to be ineffective and counter-productive (Saunders, 2004). Interventions now focused on training and skills development and (explored further below) mutual obligation. We will see later how this has affected the CDEP scheme. Meantime, from the late 1980s, micro-economic reform was introduced to

strengthen the supply side of the economy (Keating, 2004). Its impacts on public sector services are reviewed below.

Contracting out public services: The turn to contracts with NGOs or for-profit organisations for the delivery of public services was driven by both theoretical and practical considerations. At a theoretical level, the development of public choice, principal-agent and other approaches produced a new array of perspectives on the relative efficiency of public versus private provision. For example, this literature offered new perspectives on the likely capture of programmes by organised interests (such as business groups, public sector unions etc) and the aggrandising tendencies of public bureaucracies (Olson, 1965; Brittan, 1975; Downs, 1957; Niskanen, 1971). Principal-agent theory suggested more extensive use of contracts to avoid the shirking, opportunism and self-serving practices that were asserted to be endemic in ordinary hierarchical or professional relationships (e.g. Miller, 2005; for a critique, see Sabel, 2004).

These theoretical findings informed the development of public policy. Following a review of national competition policy in 1993 (Hilmer, 1993), the principle of competitive neutrality was extended to the provision of public services. In a first tentative application, the government white paper, *Working Nation* (1994) proposed the competitive delivery of case management into the then Commonwealth Employment Service. This experiment was deemed a success and in 1998, the whole service was privatised. The resulting Job Network represented one of the first comprehensive attempts internationally to apply market principles to the provision of assistance to disadvantaged job seekers (Considine, 2001). The relevant department (DEEWR) has now established contracts with around 109 non-governmental organisations (including for-profit and not-for-profit suppliers) to provide employment related services from around 1000 sites (Productivity Commission, January, 2010).

A Productivity Commission report in 2002 (*The Job Network*) noted the potential for more difficult clients to be sidelined. It also noted the very considerable savings which had accrued to the Commonwealth Budget, a point echoed more critically in the later Freud Report on employment services in the UK (2006). The use of contract arrangements has since extended to disability employment and a range of special services. As we will see in the next section, these are primary means for service delivery in remote Australia. In addition, to prevent error and to overcome inappropriate practices, accountability requirements have progressively become more elaborate. A 2007 report by the Catholic Social Services Australia (CSSA, 2007) found that under the pressure of accountability requirements, transaction costs had mushroomed disproportionately in the mainstream employment sector and that incentive arrangements had made creaming and parking endemic (also Productivity Commission, *Contribution of the Not-for-Profit Sector*, 2010 esp. 297-348). Contracting out to for-profit and NGO service providers is now the dominant approach. For example, in 2002 the Department of Family and Community Services (FaCSIA) spent \$730 million on partnership arrangements of various kinds with 15 000 non government organisations. In a comprehensive survey of published evaluations, Hodge (2004) finds that, beyond very specific circumstances, the cost savings claimed for outsourcing have not been demonstrated.

Contracting out through NGOs can also affect their representational capacities (e.g. Sawyer, 2002). Moreover, since there is typically no revokable purchase decision, the notion that quasi-market relationships enhance the power of citizens qua consumers seems mostly to be a fiction. This is particularly the case with outsourced programmes in remote Australia, where the non-existence of a network of potential service providers effectively undercuts the economic rationale for outsourced arrangements' (Dillon and Westbury. p. 59- 60).

An unpublished appendix to the Productivity Commission Review of the Not-for-profit Sector (Appendix J, 2010, available on line) lists NGO concerns about the working of the contractual system. The most fundamental involved the capacity of organisations to plan for local needs. The following comments are cited as representative of NGO concerns:

Sector Connect Inc: 'The major issue arising with respect to local knowledge and needs was a perceived limitation on organisations' ability to plan for changing local needs.....They had little or no real input into shaping future funding programs to reflect what they were experiencing and learning locally' (Appendix J, 2010 p. J2)

Illawarra Forum Inc: 'The purchase of service contracting...erodes the independence of NFPs in ways that make it difficult for them to remain responsive and flexible to community needs...A better modelbased on identification of local needs, the negotiation of funding levels and performance targets and measures is required' (Appendix J, 2010 p. J4)

Catholic Social Services Australia: 'Over time there is a tendency for contracts and funding requirements to become more detailed and prescriptive...If this trend continues there is a risk of a shrinking gene pool of ideas and service techniques in Australian social services. The cost of tighter government control and more detailed, more uniform reporting mechanisms will be a reduction in local autonomy and a decreased ability to harness local knowledge'.

Other matters that attracted criticism from agencies included: the short term nature of government contracts; the inappropriate transfer of risk; excessive compliance and reporting costs; the degree to which contracts are being used to micro-manage NFPs; and the sheer volume of contracts that community organisations need to manage. Examples of these individual concerns are explored in detail in the PC document.

Mutual responsibility in the welfare system: Australia's social policy system encompasses the provision of health, housing, education and community development as well as benefits to individuals. Whilst activity in all these areas has been affected by contracting out, the following discussion concentrates on changes to the income support system. This was originally conceived as a residual arrangement (Castles, 1985). Income support was based not on social insurance but rather transfers from general tax revenues. The system was designed to assist people in particular need, for example the indigent aged or disabled citizens or those, like the unemployed, with transient needs. The protected domestic economy meant that, at least in principle, jobs were readily available. Providing foreign exchange receipts from agriculture and minerals were sufficient, tariffs could be used to sustain employment in manufacturing. Moreover, the regulated wage fixing

system fulfilled a social justice function since the basic wage was based on need and not on capacity to pay. In practice of course, full employment was often not realised – for example, unemployment was particularly acute during the depression.

In the immediate post war period the broad reach of income support and social security measures was significantly extended and deepened (e.g. health arrangements, pharmaceutical benefits, housing, educational access, pensions etc) and this general framework, which was progressively augmented, prevailed broadly until 1983. Meantime, technical change, the movement of women into paid employment and changing occupational patterns created new imperatives – for example, for more flexible payment and work arrangements and for more part time jobs. Structural adjustment from the mid 1980s also produced a surge in unemployment levels.

The welfare system was the primary buffer against these accumulating pressures. However, by 2001, 28% of all Australian residents 15 and over were receiving income support (Keating, p. 137). Moreover, in 2007, of the 550 000 people on unemployment benefit (UB), 325 000 had been in receipt of benefits for more than 12 months – hardly the bridging assistance that Deakin had envisaged. In 2005-06, 700 000 were in receipt of disability pensions and 600 000 supporting parents benefits (Chenoweth, 2008). A system largely intended to deal with transitional events had become the principal source of support for a significant proportion of the population.

In the 1980s and early 1990s, governments responded by much tighter targeting and cost cutting. Later mutual obligation came into increasing prominence. In 1988, then Opposition Leader Howard had foreshadowed a 'Community Service Scheme' for unemployment recipients. Work for the dole legislation was not however enacted until 1997. From 1998 the principal of mutual obligation was introduced in conjunction with development of the contract-based Job Network. Those unemployed for twelve months or those assessed as having significant difficulties in qualifying for employment receive *Intensive Support Customised Assistance*. These clients are assigned a case manager who determines training and developmental needs. Failure to comply results in a 'breach' report and serial breaching results in disqualification from benefits. Assessment of needs for assistance and referrals to Job Network agencies are provided by Centrelink. From 2006, these principles were progressively extended to citizens in receipt of disability benefits and to single parents.

Commonwealth-State relations: The overlap in responsibilities between Australia's federal and state governments had long been a feature of the Federation. But the broader economic agenda outlined above, progressively required new capacities for cooperation between levels of government. This intensified as microeconomic reform was extended to education, health, utilities and transport. An initial agenda was established through the Hilmer review. The organisational framework for its implementation was put in place with the establishment of COAG in 1992. The micro-economic reform agenda has since expanded to embrace the activities of state governments and the COAG apparatus has become progressively more elaborated. Currently, over 40 ministerial councils operate under its general auspices including one covering indigenous affairs, but not remote Australia. Specific developments in indigenous affairs are considered later.

'Wicked problems' and whole-of government approaches: The election of the Howard government in 1996 coincided with a turn in the agenda from more narrowly economic issues towards human services. As noted above, the first steps involved action in areas in which the Commonwealth government had direct responsibility, notably establishment of the Job Network. However the inadequacy of siloed approaches became increasingly apparent, particularly in contexts such as long term unemployment, burgeoning numbers of disability pensioners and single mothers, governmental concerns for alcohol and drug abuse etc. Hence, attention shifted to the systemic contexts in which such 'wicked problems' were embedded. Responding to similar pressures, the Blair government in the UK had, from its election in 1997, placed considerable emphasis on whole-of-government working (PMSU: *Wiring it Up; Joining it Up*, HMSO, both 1998).

This approach began its migration to Australia with the establishment of the Management Advisory Committee (MAC) in 1999. This was a committee composed of the heads of each federal department with a brief to take the lead in cross-service issues. This process advanced in 2002 with the establishment of COAG trials (reviewed below, p.). Indeed, the delivery of services to remote communities became the seed bed for testing the efficacy of whole-of-government arrangements. This was further advanced in 2003, when Peter Shergold was appointed head of the Prime Ministers department. In 2004, MAC published a comprehensive report *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, which explored the requirements for joined-up government including culture, organisational arrangements, funding, reporting structures etc. This was followed by two other complementary documents: *Tackling Wicked Problems* (APSC, 2007) and *Policy Implementation through Devolved Government* (APSC, 2009). These explored the complexities of such arrangements, the requirements to make them work and the lessons from early experience, for which Indigenous affairs was a prime site. These are reviewed in more detail in a subsequent section.

Conclusion: Looking back from the present vantage point, two outcomes are clear. First, government continued to play a leading part in a wide variety of economic and social policy areas. Government may have changed its role, but its influence was no less pervasive. The state determines what outcomes it wants to achieve and how they will be sought. Second, there is a clear template for action: in the first instance, strong central leadership with prime responsibility for determining desired outcomes located in the central authorities; thereafter, public services are best delivered through contracts or quasi-contractual arrangements with specialist for-profit agencies or NGOs.

This framework was modified to accommodate two cases: those which involve chronic or intractable problems; and those which engage more than one department or level of government and/or local stakeholders. In these settings, management was shifted to a whole-of-government pattern. Before considering how effective this proved in practice, changes to the administration of Indigenous policy are traced.