

Difference in a federal system should be cherished not feared

Written by The Conversation

The knee-jerk response to the [Turnbull Government's proposed federalism reform](#) is to complain that if the states controlled funding to their own schools, this could result in differences between the states, which is bad and unfair. On the contrary, Australia should be celebrating the prospect of difference, as it is through difference that we get improvement for all.

Monopolies are not the best performers

When a company has a monopoly over an area of business, it usually becomes bloated with staff and complacent. There is no competition and no comparison by which to assess its performance so it becomes lazy and unproductive.

If the company can make money without providing excellence, why bother to improve? There is no incentive to find more efficient and effective ways to operate or to produce a higher quality product or even a different but better product.

If you introduce competitors into the same field and ways to measure and compare performance, suddenly the company has an incentive to improve the quality of its product, innovate and become more efficient.

Federal systems perform better

The same is true of governments. In economic terms, the greater the decentralisation and difference, the greater the economic prosperity.

There are a number of myths about federalism. For example, people intuitively believe that a federal system, with governments at the federal, state and local level, is necessarily wasteful, expensive and has far more public servants than you would find in a country with a unitary system.

[Research shows](#), the reverse is actually true. If you compare federations against other countries, the average share of public employment in the total workforce is 11% lower for federations. Countries with centralised governments tend to have bigger public sectors and be more expensive to run than federations. Public spending as a share of gross domestic product

is 13% higher on average in countries that are not federations.

Comparison and competition drive improvement

Competition and difference are two of the keys to the success of federations. In Australia, states and territories are constantly being compared against each other. After a comparison is published, the first thing a premier does is to demand that public servants find out why another state has done better on a measure and use this knowledge to improve the state's position. The process is one of constant ratcheting upwards.

The success or failure of a state's innovation can be assessed by comparing it against others. If there is a failure, at least it occurred on a smaller scale than the national level. It can readily be dropped in favour of a more successful approach taken in another state. If the innovation is successful, then other states will adopt it, improving the outcome for all.

If, in contrast, there is uniformity, such as a single national curriculum or education system, it is very hard to measure whether it has been a success or failure. This is because international comparisons are often meaningless given the different social and economic circumstances in which they operate. There is no comparative local system in operation that can show a better way.

There is also no incentive to innovate – not to mention the greater risks of implementing major innovation at the national level. In practice, everything is dumbed down to the lowest common denominator, and everyone loses.

The need for political accountability

Of course, there can be [downsides to competition](#) . For example, if the Commonwealth had proceeded with the proposal to allow states to set the rate for their share of income tax, there would have been a risk that one state would lower its rates to attract business, forcing the others to do likewise. This has happened in the past.

The risk, however, is reduced if a state is made politically accountable for both its spending and taxing decisions. A state government that reduces tax and therefore has to reduce services, can be held accountable by the people at the ballot box. It seems that state Premiers were not

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prepared to face this kind of accountability, which is why the proposal for the [states to set the rates for their share of income tax was withdrawn](#)

. It is a pity, because federal systems work better when each level of government is fully accountable to the people for its spending and taxing.

More efficient and effective funding

Under the current system, the Commonwealth funds a multitude of disparate programs in areas such as education, resulting in schools scrambling for money for things they don't want or need, simply because the money pot is there. They then miss out on money for things they do need. There is also less money available because so much is spent on administering these programs and ensuring accountability for them.

One benefit that could be salvaged from the Commonwealth's reform proposal would be to scrap these Commonwealth programs and pass a share of income tax directly to the states, so that it could be allocated sensibly and allowing more money to be spent on services that are needed, rather than administration.

The value of federalism reform

Kevin Rudd [tried to get rid of the proliferation of Commonwealth grants](#) for the same economic reasons, but failed. The prize of success, however, is so significant that Australia should not be deterred from trying again.

Reform is hard. Everyone is a naysayer and imagines the worst possible outcome. But the reform of federalism is one of the areas where Australia can reap major benefits, both economically and socially, if there are enough brave people to see it through. The differences involved in a federal system should not be feared. It is from difference that we gain choice, diversity and the opportunity to improve.

Anne Twomey has previously received funding from the Australian Research Council and has done consultancy work for governments and inter-governmental bodies.

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