

‘The authors of this book take on a seemingly impossible task—to compare three very different jurisdictions regarding government, markets and civil society. They show very clearly, however, that it’s worthwhile because of increased and valuable insights into the dynamics, convergence and divergence over time.’

— Tom Christensen, Professor Emeritus, University of Oslo; Visiting Professor, Renmin and Tsinghua Universities

‘This book offers a collaborative and comparative survey of public administration issues in Greater China and Australia, identifying key differences across the three jurisdictions examined, as well as the common challenges they face. World-leading experts in fields such as federalism, fiscal management, civil service capabilities, and aged care and health services provide readers with breadth and depth, along with nuance and balance: the good, the bad and the ugly.’

— Jane Golley, Professor, Crawford School of Public Policy, The Australian National University

‘This book demonstrates the value of scholarly engagement about public administration, ensuring greater appreciation of the endeavours in Greater China and Australia to address common challenges and to improve the quality of government services to the public despite these jurisdictions’ very different political systems. Those differences reflect different cultures, histories and perspectives, but it is important to promote mutual understanding and to look for ways in which we can learn from each other. I commend it to scholars and practitioners across China as well as those outside China.’

— Sujian Guo, Professor of Political Science, San Francisco State University; Visiting Professor, Fudan and Zhejiang Universities; and editor of the *Journal of Chinese Political Science*

‘This book is rich in content and clear eyed about the challenges of efforts at deep engagement between Australia and the constituent parts of Greater China. A stellar cast of public policy experts across the jurisdictions grapples with the issues against the backdrop of continuing bilateral tensions. Their observations remind us of the value of engagement despite our differences and of the benefits that flow from understanding each other better.’

— Joanna Hewitt, former senior Australian public servant and diplomat, and member of Lowy Institute board

‘This book conveys wisdom flowing from more than a decade of dialogue among scholars and practitioners about common issues of public administration in Greater China and Australia. The editors have assembled an anthology of insights about intergovernmental relations, budgeting and financial management, civil service, and public services delivery. The book is a valuable resource for anyone interested in effective public administration regardless of the country or region with which they are engaged.’

— James Perry, Distinguished Professor Emeritus, Paul H. O’Neill School of Public and Environmental Affairs, Indiana University, and co-editor of the *Asia Pacific Journal of Public Administration*

‘In this volume, Andrew Podger, Hon Chan, Tsai-tsu Su and John Wanna assemble an array of distinguished authors to provide a comprehensive coverage of public administration practices in Greater China and Australia from a comparative perspective. This unique book on a broad range of topics, from intergovernmental relations, budgeting and financial management to public service delivery, makes it indispensable to public administration scholars, practitioners and students and to general readers interested in this area more broadly.’

— Ligang Song, Professor, Arndt-Corden Department of Economics,
The Australian National University

DILEMMAS IN PUBLIC MANAGEMENT IN GREATER CHINA AND AUSTRALIA

RISING TENSIONS BUT COMMON CHALLENGES

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RISING TENSIONS BUT COMMON CHALLENGES

**EDITED BY ANDREW PODGER, HON S. CHAN,
TSAI-TSU SU AND JOHN WANNA**



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Preface

This book originates from the 10th workshop of the Greater China Australia Dialogue on Public Administration, a collaboration established in 2009 between a group of public administration scholars and former practitioners from the People's Republic of China (including both Mainland China and the Hong Kong Special Administration Zone), Taiwan and Australia. The workshop, held online in March 2021, provided the opportunity to reflect upon the developments in public administration the Dialogue has explored over the previous decade and to consider likely future developments over the next decade.

Previous workshops explored the following areas of public administration in the three jurisdictions:

- Citizen-centred service delivery (Sun Yat-sen University, Guangzhou, 2011), a symposium of articles later published in a special issue of the *Australian Journal of Public Administration (AJPA)* in 2012;
- Intergovernmental relations (The Australian National University, Canberra, 2012), a symposium of articles later published in a special issue of *AJPA* in 2013;
- Public sector human services management (Sun Yat-sen University, Guangzhou, 2013), a third symposium of articles published in *AJPA* in 2015;
- Decentralisation (Zhejiang University, Hangzhou, 2014), a selection of articles later published in the *Journal of Chinese Governance* in 2016;
- Budgeting and financial management (National Taiwan University, Taipei, 2015), an edited book of articles (*Value for Money*) later published by ANU Press (2018);
- Policymaking processes (Sun Yat-sen University, Guangzhou, 2016), selected papers published on the Australia and New Zealand School of Governance (ANZSOG) website;

- Institutional structures (City University, Hong Kong, 2017), a second edited book, *Designing Governance Structures for Performance and Accountability*, published by ANU Press (2020);
- Urban governance (Jiao Tong University, Shanghai, 2018), a symposium of articles later published by the *Australian Journal of Social Issues* in 2019;
- Taking advantage of new technology (Sun Yat-sen University, Guangzhou, 2019), a symposium of articles later published by the *Asia Pacific Journal of Public Administration* in 2020.

All the published articles from these workshops, including papers not published in books or journals, are publicly available via www.anzsog.edu.au/resource-library/research/the-greater-china-australia-dialogue-on-public-administration (accessed 20 June 2023).

While past Dialogue workshops all highlighted the major differences in institutional frameworks as well as in economic and social contexts, much of the emphasis was on how each jurisdiction was addressing common challenges and the extent to which there was a diffusion of ideas and approaches, albeit always adapted to each jurisdiction's circumstances.

As highlighted in the opening chapter of this book, however, it is the differences now that are being emphasised as rising international tensions inevitably draw attention to where interests and philosophies diverge. Is it even possible to compare public administration practices between such different jurisdictions? Yet an understanding of each other's approach to government and governance requires some common concepts that allow some comparisons to be made. And such understanding is of even greater importance when there are tensions and where the risk of misunderstanding limits the opportunity for finding shared interests and heightens the likelihood of deeper divisions. Notwithstanding the differences, and the serious (and worsening in some cases) weaknesses in public administration in all three jurisdictions, all three have also delivered significant improvements in public sector performance over the last decade (notwithstanding the challenge of COVID-19) and there is continuing evidence of cross-border learning about good practice.

The subsequent chapters in the book explore four areas of public administration in more detail:

- a. Intergovernmental relations, and the shifting balances between centralisation and decentralisation in each jurisdiction;
- b. Budgeting and financial management, including the challenges associated with the responses to COVID-19 and the continuing importance of performance management and accountability;

- c. The civil service, and its relationship with both government and the public, and its capability;
- d. Service delivery, including the challenge of greater responsiveness to citizens' needs and preferences and the role of new technology; particular fields examined are health care and aged care as well as administrative services.

These four areas were chosen not only because each had been explored at earlier workshops and hence more recent developments could be examined more easily, but also because, overall, they represent a very large proportion of public administration practices in any jurisdiction, whatever their political institutional arrangements. They also all involve multiple levels of government (central and local), they involve substantial resources and they open discussions regarding the national government's relationships with ordinary citizens. The very different political institutional arrangements across the three jurisdictions are not expressly explored but form a backdrop to the examination of each of these areas. This reflects the main purpose of the Dialogue from the beginning, which has been to explore areas where cross-border learnings seem most likely; in this book, however, those differences are more firmly underlined.

Brief introductions to each of the sections draw attention to similarities and differences in the approaches adopted and the developments currently taking place. In some cases, differences seem to be diverging further while in many others there continue to be signs of diffusion of ideas and practices, if applied very differently.

We hope this book attracts a wide readership among public administration scholars and practitioners, not only within the three jurisdictions explored but also among others keen to know more about the People's Republic of China, Taiwan or Australia. Our aim also is to encourage continued engagement, notwithstanding current tensions, to better understand different approaches: where necessary, confirming fundamental philosophical differences but also looking for common ground and opportunities for shared learning.

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1

The new global realities: Escalating tensions and colliding world views despite similar challenges and regime dilemmas

Kaifeng Yang, John Wanna, Tsai-tsu Su
and Andrew Podger

Abstract

Identifying a common analytical framework around which to make comparisons of respective governance and public administration practice is formidable, with such stark differences across the three jurisdictions of Australia, Mainland China and Taiwan. The differences are also currently being sharpened in an environment of heightened adversarialism and forceful tensions. Yet exploring a range of institutional dimensions provides a vantage point of analysis, particularly where there are common contemporary challenges and some parallels in the ways of addressing them.

To provide a comparative overview, this opening chapter focuses on three institutional dimensions, examining how they operate and how they may be changing or evolving in each jurisdiction: firstly, the respective roles, sizes and different conceptualisations of government settings and governance frameworks; secondly, the respective contributions of the economy and markets; and thirdly, the contributions of civil society.

The differences have long been clear but until recently discussion has focused on how Mainland China was changing under its opening-up reforms and learning from many Western-style practices. More recent international tensions, however, have sharpened the differences that continue to exist and, in some cases, widened them, presenting challenges for engagement—which is arguably more important than ever. It is interesting to observe some common developments, both positive and negative, and some common challenges not receiving the attention they deserve.

Keywords: Mainland China; Taiwan; Australia; comparative analysis of dissimilar systems; role of government; governments and markets; government and civil society; international tensions.

Constructing a framework for comparative analysis of dissimilar cases

Comparative analysis of countries or political systems generally involves identifying and then to some extent reconciling substantial differences in context, culture and defining characteristics—inevitably so, because the entire exercise involves comparing similarities and dissimilarities or contrasting like and unlike entities to probe the salience of key factors (Gray et al. 2012). Even so-called ‘most similar’ cases of, say, contemporary societies are often widely disparate in norms and values, forms and behaviour, and in the ways each society operates, makes decisions or conceals their vices. Hence, to propose to compare three very different jurisdictions with extensive and complicated histories, as we do in this volume, is arguably optimistically courageous, a rash endeavour or even somewhat naïve—and perhaps all three simultaneously! Nevertheless, focusing on a carefully chosen pared-down set of core themes or key factors allows us to compare and contrast developments within these case studies and analyse how these jurisdictions respond to various challenges and regime dilemmas. That is our mission with the many jurisdictional-based contributions of this volume.

We must accept from the very start that there are incredibly stark differences between the three jurisdictions chosen for this study: Mainland China, Australia and Taiwan. They are particularly stark between the communist party-state of Mainland China and the liberal settler-society of Australia, but also between the flourishing democracy of Taiwan and the two other jurisdictions. The differences are clearly substantial across

many dimensions—in terms of history, culture, scale, the economy, population, and geographic attributes, as well as in the political and institutional arrangements, regime prioritisations and popular sentiments of the peoples. Furthermore, we argue that these distinct differences in institutional arrangements and the values and ideologies behind them are being sharpened in the recent jingoistic rhetoric of political leaders in each of the three jurisdictions (e.g. Kearsley et al. 2020; Tsai 2021; Xi 2021; Dutton 2022). A heightened adversarialism and forceful rhetoric has recently erupted to mar inter-jurisdictional relations, magnify diplomatic and trade tensions, and escalate a new arms race. Such disputes have not arisen because of any single catalyst or incident (including the COVID-19 pandemic) but are contributed to by many and sometimes overlapping causes—political, economic and diplomatic. Many have been influenced by Mainland China’s geostrategic repositioning and aspirational leadership.

We ought to acknowledge at the outset that it may seem insurmountably difficult to many readers to identify a common analytical framework to apply to our chosen jurisdictions around which to make comparisons of respective governance and public administration practice. Nonetheless, exploring a range of institutional dimensions essential to each case, even if radically dissimilar in nature, provides a possible comparative vantage point of analysis. It can also be observed that the three jurisdictions each face many similar contemporary challenges and regime dilemmas, both internationally and domestically, and some parallels in the ways of addressing these issues, despite vast differences in the dimensions of scale. Moreover, as scholars of government and public administration we should also recognise that there is considerable evidence of diffusion of public administration ideas and practices even when applied very differently or through different lenses (Lowndes et al. 2017).

Importantly for this project, and investing an intellectual interest in comparative public administration, we can build on the legacy of cross-national research and empirical investigation undertaken in our three jurisdictions for over a decade through the Greater China Australia Dialogue network. To date, this is the 10th publication that has been produced from these engaging practitioner-scholarly forums, which have examined issues of mutual concern and contemporary practice (Podger 2021). These previous publications have tackled important public policy topics such as intergovernmental relations, patterns of decentralisation and regionalisation, human resource management, performance management, developments in budgetary and financial management and accountability,

city management and urban provision, policy development processes, organisational structures for performance and accountability, and service-delivery modalities.

Accordingly, to provide a comparative overview of recent developments and future prospects, we focus in this opening chapter on three important institutional dimensions in the three jurisdictions, examining how they operate and how they may be changing or evolving. Firstly, we explore the respective roles, sizes, different conceptualisations of government settings, and governance frameworks in these societies. Each has recognisable and relatively enduring governing systems. Secondly, we consider the respective contributions of the economy and markets in delivering social outcomes and rising standards of living, and in particular the complexion of relations between governments and markets in achieving growth and prosperity. Thirdly, and finally, we explore the contributions of civil society in each of the jurisdictional cases, especially in delivering community wellbeing and resilience. Civil societies and community dynamics have their own cultures, norms and mores, which in many ways provide the structure and backbone of their societies. As comparativist scholars, we are cognisant that even this essentialist framework will raise issues and create problems in the contrasting understandings of these three institutional dimensions (government, markets and civil society), recognising that the composition and boundaries between them vary considerably (Lowndes et al. 2017).

In addition, it is important to place these comparative institutionalist topics into the wider geopolitical context in which recent developments have been taking place. First, in the international context we have witnessed not only a remarkable rising of Mainland China as a new global superpower, but also the relative decline of US global hegemony from that which it enjoyed after the end of the Cold War, both of which have exacerbated increasing global tensions, mutual suspicion and distrust (Mahbubani 2020; White 2021; Rudd 2022). Mainland China's more assertive reclaiming of its aspirational place on the world stage has been confronted by political responses from both Australia and Taiwan, as well as from the US during the presidencies of Obama, Trump and Biden (Bolton 2017; Pelosi 2018; Tsai 2021; Dutton 2022). The associated emerging problematics in this new international context have important trade and military implications. For instance, Mainland China is by far Australia's most important trading partner in terms of resources, commodities, food and consumer goods, while the US is its most important international ally in national security concerns. In this rapidly transforming and unpredictable context, it is understandable that national rhetoric and political differences will be highlighted.

Second is the longer-term economic and political trajectories of the three jurisdictions. Mainland China has been experiencing perhaps the greatest economic transition the world has seen—from a poor, closed command economy to a modestly prosperous market economy, albeit with continuing socialist and authoritarian characteristics. This transformation has involved embracing aspects of the liberal institutions in other market economies, though adapted very differently. Taiwan, as one of the early ‘Asian Tigers’, experienced rapid economic growth earlier through its market economy and sustained that growth as it transitioned in the 1990s from an authoritarian system ruled by the nationalist Kuomintang (KMT) to a democratic one with peaceful transitions of government. Australia has long been among the richest developed Western nations and has had a national democratic government structure since Federation in 1901 (and considerably earlier, in the mid-nineteenth century, under the British colonial regimes). Its economic and political trajectory over the last 40 years has therefore been more incremental than transformative, although gradually over time substantial changes have occurred (Kelly 1992, 2009). In purchasing power parity terms, Mainland China’s per capita income remains well below those of Australia and Taiwan despite its recent rapid growth, and Taiwan’s now exceeds that of Australia (possibly affected by recent moves in resources and high-tech prices—in exchange rate comparisons, Taiwan’s per capita income remains well below that of Australia). See Figure 1.1.

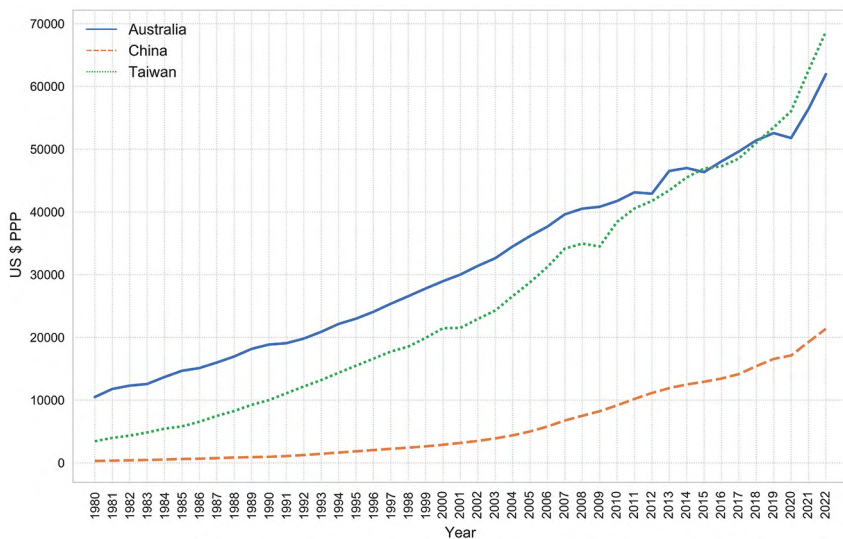


Figure 1.1: GDP per capita: Mainland China, Taiwan, Australia (USD purchasing power parity).

Source: IMF (2022).

Such trajectories can only be truly recognised in hindsight, and it is important to appreciate that changes or developments rarely occur steadily in one direction; path dependency has important implications for future options but also reform trajectories can recalibrate political and economic experience. But equally, there will always be contingencies and events that shape or interrupt progress, as societies face dilemmas (or swings and roundabouts) as circumstances demand or as choices are made and leaders change. We need to be aware of these trajectories as we seek to explain more recent developments and prospects facing the three jurisdictions.

Role of government

Mainland China

The big changes in the role of government in Mainland China occurred in the 1980s and 1990s and continued in the 2000s. The transition to a market economy began with allowing foreign investment and promoting international trade, quickly followed by the expansion of the domestic market and initial reforms to state-owned enterprises to make them more commercial or in some cases to privatise them. The role of government shifted accordingly from total command towards the more limited role espoused by most Western economists (e.g. Musgrave and Musgrave 1980), which involves focusing on resource allocation (e.g. the provision of public goods), redistribution (e.g. providing protection against poverty) and stability (e.g. managing inflation, debt and unemployment). The biggest shifts in these first 30 years of reform involved focusing on macro-economic control and reducing direct involvement or management of enterprises and markets. This also required building the associated legal and financial framework within which businesses and citizens could operate with confidence and managing the huge transition with minimum adverse impact. By the end of the 1990s, despite the remarkable increase in material wellbeing in Mainland China, adverse effects were becoming unacceptable, and the government's attention turned to addressing the market failures that were causing environmental damage and undermining social protection. While deregulation as an overall trend continued, the new priority under Hu Jintao and Wen Jiabao became the 'harmonious society' (Bell 2006; Guo and Guo 2008), balancing the desire for continued economic growth with paying more attention to non-material aspects of wellbeing, including health, a clean environment, and social protection through social insurance and welfare programs.

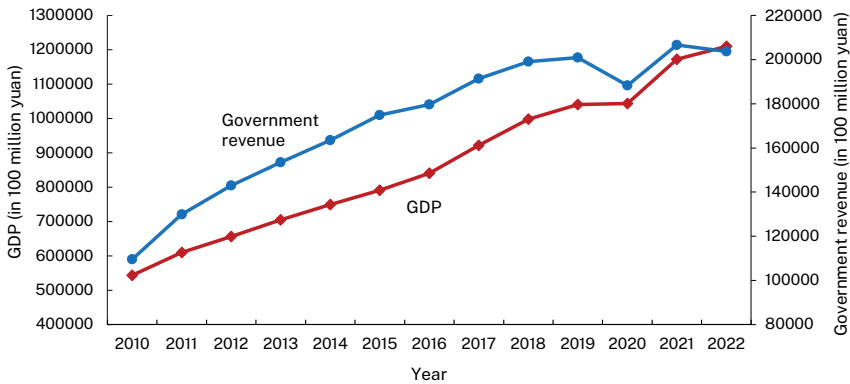


Figure 1.2: GDP and government revenue in Mainland China, 2010–20 (2010 prices).

Source: *China statistical yearbook (2022)*.

The past 10 years have seen more efforts to modernise government systems and capacity. The earlier era, when ‘limited government’ was often referred to, has been replaced by references to ‘pro-active government’ (Lin 2015; Lin and Wang 2017; Zhou and Hu 2021), not an attempt to directly constrain the market or civil society but also not the Western liberal concept of government. Under Xi Jinping and Li Keqiang, environmental protection has been formally added as an essential function of government and substantial progress made to improve public services and ‘social management’ as well as the other two original functions (macro-economic control and market regulation). As Figure 1.2 shows, the size of government and the size of the market have continued to grow over the last decade except the year of 2020 due to COVID-19.

Government revenue as a share of GDP has oscillated between 16 and 22 per cent of GDP over this period (Figure 1.3).

Xi Jinping’s key rhetoric has included the ‘China Dream’ (Xi Jinping 2013) and more recently ‘Common Prosperity’ (Xinhua 2021), promoting the idea of a moderately wealthy nation with renewed international standing and whose prosperity is shared fairly among its people. The policy agenda emphasises the so-called third distribution of resources, which is through charity and philanthropy. Some tech giants and big companies responded by pledging billions of yuan to social innovations and social causes.

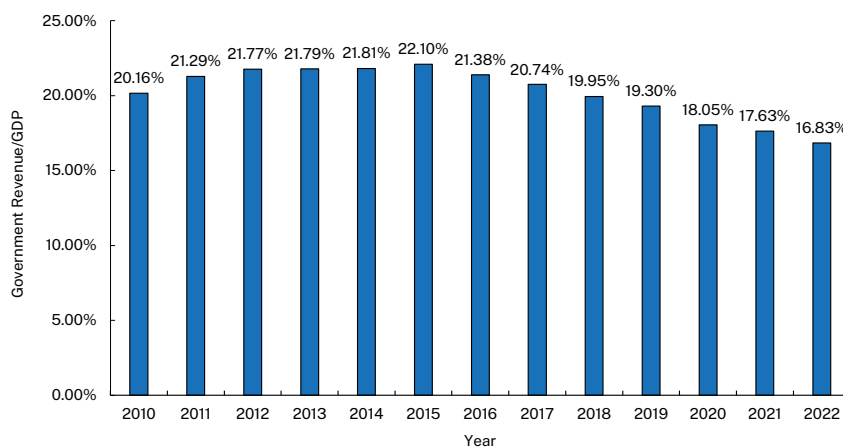


Figure 1.3: Government revenue in Mainland China as a per cent of GDP, 2010–22.

Source: *China statistical yearbook (2022)*.

Other measures have been taken to streamline government, delegate more power to local government, and reduce regulation and make it easier for business to grow (Yang 2022). The top priority of Premier Li has been the *Fangguanfu* reforms, where *fang* means streamlining administration and delegating power, *guan* means improving regulation, and *fu* means upgrading services. Measures have also been taken to improve the capacity of government, particularly to deliver more and better public services such as through one-stop government service centres employing new technology to offer integrated services. Great efforts have been paid to improving the business environment, reducing institutional transaction costs and increasing market vitality. Capacity has also been increased in emergency management (with the creation of a new Ministry of Emergency Management). Considerable effort has also been devoted to improving financial management and accountability, with more transparent and comprehensive budgeting and financial reporting.

In recent years, increased attention has been paid to building a modern regulatory framework. Since 2021, Mainland China has accelerated the revision of its 2007 antitrust law. The new law was passed in June 2022, with effect from August 2022. The law aims to build a unified, open, competitive and orderly market system. The State Administration for Market Regulations released anti-monopoly rules targeting the country's giant internet economy companies in March 2021 (CNBC 2021), and the new law reiterated its approach toward regulating emerging economies:

accommodative and prudential regulation. The task of building the capacity needed in government to manage a modern, sophisticated market economy has proven to be immense, particularly given the size of Mainland China, its five levels of government, fierce inter-local competition and rapidly changing economic structure—the efforts of the last decade will need to be sustained for at least another decade.

As mentioned, the emerging governance model is not the Western liberal one, as Xi Jinping has made clear by his emphasis on the central role of the Chinese Communist Party (CCP). Increasingly under Xi, government is pervasive and business and civil society are expected to be closely entwined with—even embedded in—the party-state, notwithstanding the shift to a market economy and the relaxation of previous strict constraints on civil society.

The role of government in relation to the market in Mainland China is still evolving, further minimising direct intervention in market activities while strengthening interim and ex-post regulation. Nevertheless, it is difficult to describe precisely and fully the emerging role of government to outsiders. The role of government in a party-state seems to involve several paradoxes from a Western perspective. In part, the pervasive role of government may reflect longstanding Confucian cultural values of considerable acceptance of authority. But there is no doubt that Xi has strengthened the role of the party both within government and across society. That said, many of the reforms initiated in earlier decades are continuing and being extended. How the tension between market liberalisation and firmer party involvement will be resolved is still evolving. Similarly, government reforms that aim to improve transparency and accountability within government are continuing despite the opaqueness of an increasingly powerful party and authoritarian leadership. And policies to delegate more functions to local government appear to conflict with the political centralisation of power.

In other words, it's complicated.

Taiwan

Government continues to be a dominant force in Taiwanese society—a legacy of the authoritarian era but also perhaps reflecting ongoing Confucian cultural values. Public expectations favour activist government ('strong government' but not necessarily 'big government' (Hsieh et al. 2019)) to lead the country to prosperity through economic planning and to distribute

resources using a range of regulations and public programs. However, the overall environment has changed significantly over the last decade or more and several factors are forcing the government to reconfigure its role.

Firstly, government resources are declining. After a peak of 25.6 per cent in 1990, government revenue as a share of GDP has steadily decreased. Over the last decade it has averaged just 15.1 per cent (see Figure 1.4). In addition, there are now fewer state-owned businesses than in the past and their importance in the economy has declined.

Secondly, Taiwan's market economy has matured. Many private enterprises, such as TSMC, the world's largest contract chipmaker, have become an essential part of the international economic system, thus making it more difficult for the government to maintain its dominant role. Thirdly, following Taiwan's democratisation, the government has to pay far more attention to various stakeholders and to public opinion thus weakening its previous dominance. Finally, new public management theories have been widely embraced over the last two decades, promoted in academia and supported by key political leaders and senior bureaucrats. The idea that 'the job of government is to steer, not to row the boat' (Osborne and Gaebler 1992:25) has taken hold, leading to strategies, since the beginning of the twenty-first century, to achieve 'small and beautiful government' (Su 2018:79).

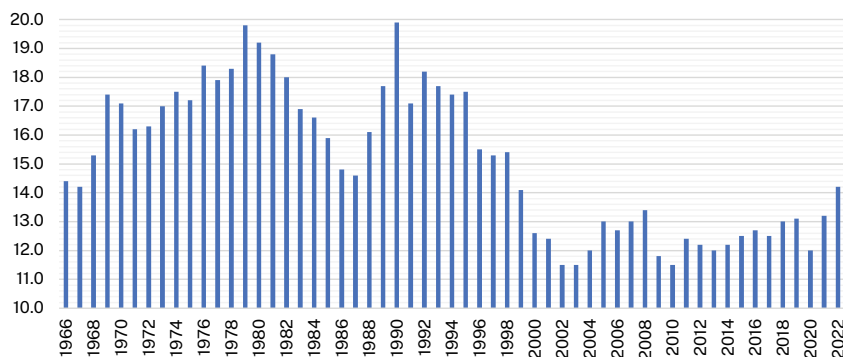


Figure 1.4: Taiwan's government revenue as a per cent of GDP, 1996–2022.

Note: Excludes social security revenues which are placed in a trust fund. Social security expenditures in 2020 were around 16 per cent of GDP.

Source: Ministry of Finance Taiwan (2023).

The main strategies adopted have been streamlining government organisations, placing caps on the size of the civil service and pursuing public–private partnerships (PPPs) to provide infrastructure and deliver services. Whether these strategies will achieve small and beautiful government is yet to be proven, but the ‘strong government’ model has proven difficult to sustain. As a result, the role of government and its relationship with the private sector and civil society are still evolving.

Among the reasons for this reconsideration of the role of government is the growing maturation of society, including the education level of the people, living standards and citizens’ aspirations meeting Western expectations. It is not yet clear that the goal of ‘small and beautiful government’ will be achieved or maintained; to date, the measures to improve the capability of the public sector have met with mixed success at best. As discussed below, the use of PPPs has achieved some efficiency gains but has also involved political risks, including accusations of corruption. There has also been limited political interest in genuine management capacity in the public sector. Civil service caps have not been adjusted for increased workloads, causing considerable dissatisfaction within the civil service. Political leaders are also requiring more attention to be paid to communications and marketing, forcing civil servants to spend time on social media (e.g. Facebook, Line and WhatsApp Messenger) and public hearings, eating into time civil servants should be devoting to planning and implementing policies. The morale of the civil service has also suffered from the government’s clumsy efforts to implement civil service pension reform (originally intended to ‘bind’ civil servants’ loyalty to the regime via generous pension entitlements, but now intended to lighten the government’s future fiscal burden by constraining the largely non-contributory pension liabilities). These reforms would adversely affect retirement incomes of civil servants and put at risk future quality recruitment into the civil service.

Political polarisation in Taiwan, exacerbated by divided attitudes towards Mainland China, has also undermined the neutrality of the civil service while consuming government resources and weakening the trust needed for collaboration with the private sector and civil society. The grip of the KMT over politics has weakened considerably and the party has fragmented, with rival personalities vying for leadership of the ageing movement; meanwhile, the Democratic Progressive Party has consolidated its base, especially in the island’s decentralised population outside the northern Taipei / New Taipei region.

In light of the growing tension with Mainland China, even though government revenue as a share of GDP has steadily decreased, Taiwan has made modernising the armed forces and increasing defence expenditures a priority. As a result, the Democratic Progressive Party (DPP) Government boosted the annual defence budget for fiscal year 2022 to NTD3,355 billion (USD120 billion), which is the largest-ever yearly defence budget in Taiwan. Additionally, since 2020, the legislature has also passed two 'special defence budgets' amounting to NTD4,841 billion (USD170 billion). The extra funding aims to upgrade weapons in a short period.

That said, the government and the civil service have made considerable improvements in some areas of public service delivery, such as medical care, social services for the aged, community security, and transportation. As for the fight against COVID-19, the government has adopted a unified monitoring and strict control policy since 2019. This authoritarian or big government model was effective at first. However, soon political considerations contaminated the procurement of vaccines and antigen test kits, resulting in an increase in deaths and dissatisfaction among people.

Not only were Taiwanese people unhappy with the way the government handled the procurement and distribution of COVID-19 vaccines and antigen test kits, but they were also confused and disappointed by the tensions between the central and local governments regarding the formulation and implementation of anti-pandemic policies. There has been a slow but consistent trend toward decentralising political power since the mid-1990s. At that time, several institutional reforms were carried out to enhance local governance capacities. Nevertheless, the central patriarchy has never entirely faded away. The outbreak of COVID-19 provided an opportunity for the central government to 'legitimately' enhance its control and intervention in the local governments. However, the local governments are not as obedient as before. Instead, local governments often protest loudly against the central government's dominance and strive to win local support with their government performances.

Looking to the next decade, Taiwan will need to find ways to reduce partisan and political infighting and to gain bipartisan interest in rebuilding a civil service in which civil servants feel respected. There will not, however, be a return to big government.

Australia

In Australia, the last 10 years has seen a great deal of political volatility at both federal and state level. There have been five prime ministers, five national treasurers, six defence ministers and ministerial reshuffles at least once every two years. At the state level there have been huge election landslides in NSW, Queensland, WA and Victoria. At both levels of government there has been a steady decline in voting for the two major parties, especially in the nation's Senate. Minority governments, once a rarity, have now become quite common; and governments have increasingly had to rely on the support of a number of prominent independent politicians who hold the balance of power.

Associated with this volatility has been a shift from clear ideological differences between the parties to an emphasis on pragmatism coupled with more 'professional' political opportunism. Executive government is dominant, including through a 'National Cabinet' (replacing the former Council of Australian Governments), meeting much more frequently to direct the management of the COVID-19 pandemic. Legislatures have generally been restricted to endorsing special funding packages or support measures. Government seems to be by press releases and media conferences (often daily) by state premiers and territory chief ministers as well as the prime minister. Crisis management under COVID has seen governments behave unilaterally, often with authoritarian streaks.

While National Cabinet has provided a useful deliberative forum where views can be shared, the reality of federalism and the semi-sovereignty of each government represented has constrained consensus decisions and led to some problems of consistency and coordination. Moreover, party politics have unsurprisingly intruded in deliberations, constraining cooperation across jurisdictions. Whether the increased role of the states and territories evident during COVID will stop the long-term trend towards the national government is questionable. Some commentators suggest it may do so, but others point to the vertical fiscal imbalance that allows the national government to exercise power, and to underlying centralising forces such as technological change and globalisation.

While COVID has led to an unprecedented (and expected once-off) jump in government spending, there has been no underlying shift in the size of government in Australia since 2010.

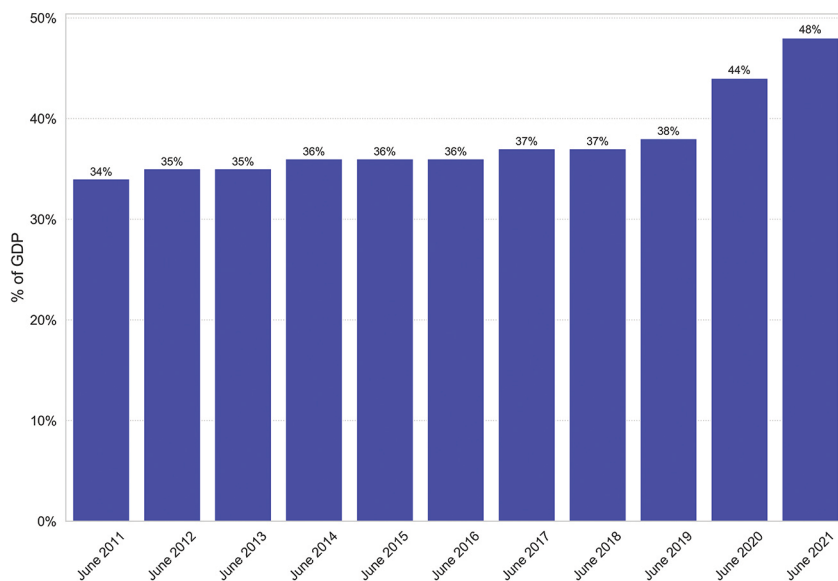


Figure 1.5: Total government expenses as per cent of GDP, Australia, 2011–21.

Source: ABS (2022).

Aside from the short-term effect of COVID, total government spending remains at around 35 per cent of GDP (Figure 1.5) and public sector employment at around 20 per cent of the workforce. The new public management (NPM) reforms of the 1980s and 1990s affected the way governments in Australia played their roles but not the roles themselves (Keating 2004), though the reforms did reduce public sector employment, and, at the Commonwealth level, the size of the civil service has since continued to be tightly controlled.

There are, however, considerable pressures to increase government spending over the next decade and beyond, particularly on health, aged care and disability services; defence spending is also increasing as a result of increasing international tensions. The response to COVID will leave the nation with the highest level of debt it has faced since World War II (though at around 60 per cent of GDP, not as high as that of many other OECD countries). The challenge will be how to return eventually to a surplus while also meeting long-term expenditure pressures. Economic commentators are highlighting the need to promote stronger economic growth particularly through increased productivity, but growth has been modest for the last decade, wages stagnant and productivity low. The challenges for the next decade are therefore considerable.

The 'professionalisation of politics' (accompanied by the rise of 'career politicians' who have never worked outside adversarial politics) has not only contributed to the shift away from ideological debates but also, arguably, undermined the capacity of the civil service and the ability of the nation to face the challenges ahead and properly deliberate major policy reforms. The challenges include not only the economic and social pressures mentioned above but also climate change (a diabolically divisive issue in Australia for a decade and a half) and international relations. Debates are taking place about curbing some of the opportunistic behaviour of ruling parties, strengthening accountability mechanisms and enhancing civil service capability but serious action has yet to be taken.

The domestic issues facing the government are compounded by international developments. The relative decline of the US and the priority its people seem to be giving to its domestic concerns over its postwar international role (Trumpism being just one manifestation of this), as well as the increasing power and assertiveness of Mainland China, present Australia with a dilemma. Its primary defence and security ally may have decreasing power, interest and influence in the Asia-Pacific region, while its primary trading partner, Mainland China, is asserting both domestically and internationally policies antithetical to Australia's liberal democratic traditions and beliefs. Current disputes with Mainland China include its unilateral restrictions on trade in some commodities, discouragement of tourism and international students coming to Australia, and military manoeuvres in the South China Sea, as well as Australia's actions such as denying Huawei from participating in 5G communications development, tightening foreign influence laws (including for university research), questioning the origin of COVID-19 and constraining foreign investment. The associated dilemmas for Australia are being played out in debates between defence and security advisers and economic advisers, including over whether or not engagement helps expand areas of shared interest, given the context of the approaches being taken by Mainland China under President Xi. Resolving these debates is made more difficult by Mainland China's refusal for more than two years to allow bilateral ministerial or heads-of-government meetings (though there are now signs of relaxation).

Governments and markets

Mainland China

Mainland China is continuing to promote market reforms and its total trade is continuing to increase. It is also looking to rely domestically more on private consumption than government infrastructure investment for future economic growth (though this has been deferred by COVID). As Mainland China has embraced markets, it has nonetheless pursued a development model of close links between government and private investment and planned industrial expansion. Under President Xi, the role of the party across all sectors of society is being given increased emphasis, leaving some uncertainty about how market reforms are likely to play out in the future.

For example, reform of state-owned enterprises (SOEs) seems to have slowed according to some observers (Wang and Leng 2018): further privatisation seems not to be on the agenda. SOEs continue to be required to have a branch of the party within the organisation, which may create tensions and ambiguities for corporate governance. Nonetheless, pressure to improve performance, including through greater transparency and accountability for the purpose of better governance within government, seems to be mounting.

Premier Li's '*Fangguanfu*' reforms, mentioned earlier, aimed to make it easier to do business. Considerable effort has been made to making the permit process easier. In October 2019, the State Council passed the Regulation on Optimizing Doing Business Environment (State Council of China 2019). Efforts have also been made to improve Beijing and Shanghai's 'doing business' ranking by the World Bank. The State Council selected Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou and Chongqing as experimental cities for further improving the business environment. In January 2021, *The Action Plan for Building a High Standard Market System* was announced, which includes a series of reform measures in this area (Ren 2020). This is an ambitious plan, but empirical data show that at least in the major cities, the business environment has already improved significantly, especially in terms of market entry and starting a new business (Jiang 2021).

Nonetheless, large private companies are now required to have party branches and, as with SOEs, this presents the risk of tensions and ambiguities in corporate governance, and hence risks for shareholders, particularly foreign

investors expecting Western-style corporate governance and accountability in line with World Trade Organization principles. At the same time, the government is looking to address both anti-competitive behaviour by some of the biggest companies and prudential problems created by others through inadequately regulated borrowing.

The government is also looking to make more extensive use of PPPs not only in physical infrastructure investment but also service delivery and support services. The approach is not, however, based on rigorous competitive tendering but on 'relational contracting' where performance is still expected and monitored but relationships of trust must be built first and relied upon. In practice, the enterprises participating in PPPs are mostly SOEs.

Taiwan

Since the early 1950s, Taiwan has pursued a development model where the government was closely involved in industrial expansion through planning and various incentive programs (particularly tax concessions) to subsidise private enterprises and support key industries. After democratisation and even after subsequent economic globalisation, this modus operandi has not changed in any significant way. The current ruling party, which took office in 2016, has sought to play an active role in developing industries such as smart machinery, biotech and medicine, green energy, defence and the 'circular economy'.

It is not clear, however, whether government is still capable of guiding private companies or doing so successfully, given how rapidly industries change today. Many scholars are calling on the government to minimise intervention and instead to deregulate, to allow markets to adjust more quickly, allocating resources more productively and enhancing economic growth. Powerful interests, however, are resisting such policy changes.

Taiwanese governments remain enamoured of using market mechanisms to enhance efficiency within government. Between 2002 and 2021, there were 2,008 infrastructure projects involving PPPs with a total private investment of USD66 billion (Ministry of Finance Taiwan 2022b, Table 6.1). These included hospitals, schools, subways, hotels, social housing, harbours and incinerators. While there is evidence of success in terms of value for money (Ministry of Finance Taiwan 2022b), there have also been problems, some relating more to political risks and public unease than any substantial failure. An example is the case of Mr Ko Wen-Je who, when running for mayor of

Taipei in 2014, accused the city of corruption in the management of five build-operate-transfer (BOT) projects. A lengthy investigation found in most cases the accusation was groundless, but the damage was done and the trust needed between the corporate sector and government to manage PPPs was lost and the scope for future PPPs greatly reduced (Wu and Chu 2021).

Australia

Australia has a long history of intervening in markets, mostly to protect key industries from international competition and to regulate the labour market to maintain employment and ensure a floor ('minimum wage') for employees' wages. Over the last 40 years, this has radically changed as governments on both sides of politics have embraced a more open and competitive market and reduced regulation of the labour market (Kelly 2009). This has ushered in a long period of sustained economic growth and improved productivity, at least until the last decade. There remain however industries subject to considerable government intervention, including defence, and much of the growing services sector is heavily financed and regulated by government (e.g. health and aged care). In addition, the labour market remains far more regulated than in the US and some other OECD countries, and the nation is one of the only ones in the world to retain a judicial-based arbitration system to determine pay and conditions—now called the Fair Work Commission.

Nevertheless, the emphasis on competition and markets continues, with two key agencies playing a particularly significant role over the last 30 years: the Australian Competition and Consumer Commission (ACCC), which combats anti-competitive behaviour by business (including some recent world-leading action against global tech giants (ACCC 2019)) and protects consumer rights; and the Productivity Commission (PC), which conducts inquiries into industries to promote improved efficiency, including industries largely funded by government such as aged care, child care and disability services (the PC is also charged by governments to monitor the performance of all government services).

Since the 1980s, governments have also looked to use competition to enhance their own efficiency, commercialising and privatising many government businesses, using PPPs for infrastructure projects, contracting out some service delivery and using purchaser/provider splits to help others focus on costs and efficiency. While there are debates about how effective these measures have been, and privatisation has never been politically popular,

there are no signs of a reversal of approach. Equally, however, while some experts advocate further reforms to enhance competition and to extend the use of private sector management practices in government, there seems little political appetite to go down that track.

What seems more likely over the coming decade is that there will be incremental adjustments in both directions, as the recent pause in significant policy reform continues. There may be some reduction in contracting out where there are signs that private sector providers have been able to exploit their position because the public service has lost capacity for informed purchasing (e.g. in IT), and some further adoption of private sector innovation techniques to make better use of technology in service delivery (e.g. Services Australia and Services NSW).

Government and civil society

Mainland China

When Mainland China first permitted the establishment of civil society organisations, they were subject to a dual administration/management system which required each to have a sponsoring department as well as general permission, thus making them almost an extension of government. This was relaxed in the mid-2000s with a new direct registration system without a sponsoring department. The result was a massive increase in the number of social organisations across Mainland China, reflecting their members' shared interests in any number of fields—environment, arts, culture, social support, industry associations, professional groups, sport etc.—and working at different levels, from local communities up.

Under Xi Jinping, this more relaxed regulatory approach has been somewhat tightened by the requirement announced in 2015 (Shen et al. 2020) that each organisation must have its own party branch if they have more than three communist party members, or a joint branch with other institutions if the party members in their organisation number fewer than three. How significant this change has been is unclear. The previous relaxed approach still operated with an expectation of considerable embeddedness between the social organisations and government, and party involvement or at least full awareness. But it did not, once the dual registration system ceased, require full alignment of activities with the party-state.

Over the last decade, the government has been contracting with not-for-profit (NFP) social organisations, as with business, to deliver some public services. This has been expanding particularly in social services such as aged care, as these have been given increasing priority. This has created ambivalent government–NFP relations, where the government perceives NFPs as a threat to political stability while it also needs NFPs to meet social demands that might fuel grievances against the government (Kang and Han 2008; Spires 2011; Teets 2013). As with business, the approach has been less based on open competition than on ‘relational contracting’, relying heavily on the NFPs’ ongoing close links with government (Jing and Chen 2012; Zhan and Tang 2016). Considerable effort is being devoted by the government to improving service delivery more generally, including via NFPs.

The approach under President Xi is clearly aimed at strengthening embedded relationships, protecting the party’s power by prohibiting the creation of separate centres of power in society. But this does not mean that society has no impact on government policies and management. Indeed, NFPs can apply insider and outsider tactics to influence public policy. The government has, through a number of measures including social media, increased ways in which citizens can comment on public programs and their delivery and there continues to be a form of ‘social accountability’ as Jun Ma (an original Dialogue principal) described in 2009 (Ma 2009). Nonetheless, the more recent use of ‘social credit’ can be as much about controlling citizens and social organisations as it can be about improving the responsiveness of government to the needs and preferences of its citizens.

Taiwan

In Taiwan, democratisation was followed by the rapid emergence of NFPs, which gradually formed an interdependent relationship with the government. In embracing NPM ideas since the early 2000s, the government has increasingly drawn upon NFPs to deliver social services. For instance, the government gave funding to many disability rights social advocacy groups to provide services to disabled people. This funding transformed those disability social movement organisations into service-oriented NFPs (Chang 2017). Basically, under the NPM ideologies of privatisation and marketisation, the government’s role in directly providing social services has shrunk. Instead, NFPs have assumed a more significant role as service providers, either through direct subsidies or government procurement systems. As a result, it is not unusual to see public welfare facilities contracted out and managed by NFPs in Taiwan.

Many NFPs now only survive with government funding, which skews the relationship and curtails their autonomy. Nonetheless, grassroots social organisations in particular play an advocacy role for specific interest areas such as the environment and social support. They also are calling for more public participation in policy debate and government decision-making. Their efforts have inspired more young people to take part in public affairs, providing an impetus for building a more mature civil society in Taiwan (Lin 2007; Huang 2014).

In response, governments over the last decade have begun to value the participation of civic groups in policy deliberation and decision-making. Online policy participation network platforms have been established to solicit public opinion and suggestions for policy. Civil servants also work with NFPs to arrange forms of ‘participatory budgeting’, particularly for the prioritising of local projects (Su 2017, 2018:87–90; Kuo et al. 2020).

Taiwan has closely watched the erosion of rights in Hong Kong since its reintegration into Mainland China in 1997. Confidence in the preservation of a ‘one country/two systems’ model has waned as President Xi has tightened his grip over Hong Kong’s institutions, civil society and liberalist ways. The outlawing of any expression of dissent in Hong Kong has not gone unnoticed in Taiwan, and merely served to strengthen the desire for genuine sovereign independence from the political classes.

Australia

Australia has long had an active civil society sector, particularly through the churches and trade unions. While the union movement is no longer the force it was (membership had fallen to 14 per cent of employees by 2016 and most of these are in the public sector (ABS 2020)) and society is far more secular today than in the past, church-based NFPs remain major providers of social services and non-church NFPs have grown in importance both in social services and in other fields such as the environment.

Governments have funded NFPs to provide aged care services since the 1950s, but the use of non-government organisations (both NFPs and for-profit organisations) has expanded considerably since the 1980s, not only in aged care but also in childcare, employment services and disability services. This expansion has continued over the last decade with increased community-based support for aged care and new funding for childcare and disability services. The approach has been shifting from formulaic

funding of providers based on provider applications to more competitive arrangements and now towards demand-side funding which allows much more consumer choice and control (PC 2011; Commonwealth of Australia 2017). The transition is by no means complete, and presents a number of challenges for both the government and the NFPs (and for-profits) concerned, including how to control costs and how to ensure the providers provide quality care. The expanded role of NFPs in delivering publicly funded services also requires governments to address how best to ensure the NFPs have the capacity needed (Butcher and Gilchrist 2020).

Reliance on government funding at times presents the NFPs with a dilemma, when governments do not welcome the NFPs advocating policies with which they disagree. Attempts continue to be made from time to time by governments to constrain NFPs' advocacy activities whether through contracting arrangements or through regulation of NFPs' charity status (for tax purposes) (Oquist 2021). So far, however, there seems no discernible impact on the vibrant role of NFPs in public policy debate.

There has been little sign yet of interest by government in direct public participation in government decision-making (or in providing consumer feedback of the quality of services—a long overdue proposal that has been previously announced (AGRAGA 2010; DPMC 2011: Figure 5.1) but subsequently deliberately ignored). Instead, there are extensive processes of consultation in most areas of public policy development. More concerning is the extent to which 'professionalisation of politics' involves market research rather than genuine consultation and aims to identify the 'spin' most likely to gain votes rather than the best policy.

Concluding comments

Differences between these three jurisdictions have long been clear and stark, particularly in their institutional arrangements. But until the last few years, public administration discussion has focused on how Mainland China was changing under its opening-up reforms and learning from many Western-style practices regarding the role of government in a market economy and the role of a civil society somewhat separate from government. Discussion also highlighted common challenges, and management issues and practices such as regarding budgeting and financial management, performance management, human resources management, intergovernmental relations and the use of new technology to improve public services. There is evidence

of diffusion of ideas across the jurisdictions, particularly surrounding performance management and government partnering with business to improve efficiency and effectiveness, ideas drawn from NPM but applied very differently given the different institutional frameworks.

More recent international tensions, however, have sharpened the differences that continue to exist and, in some cases, widened them. Mainland China's growth in power has been accompanied by much greater assertiveness confronted in turn by firm responses from Australia and many other Western countries, as well as Taiwan. The rhetoric now highlights the ideological differences between liberal democratic systems and Mainland China's authoritarian approach. Some commentators might even see common windows of opportunity in these challenging times, but the jury is out at present on whether such opportunities will actually materialise.

In this context, it is still interesting to observe some common developments of concern in all three jurisdictions. These relate to increased politicisation that appears to put at risk the capacity of government to address the various policy challenges they face. As mentioned, in Mainland China President Xi is strengthening the party control in ways that some argue may undermine the opening-up reforms that have successfully delivered Mainland China's remarkable economic growth and improved so many people's wellbeing, including economic freedoms. In Taiwan, deep political differences, and failure to respect the role and neutrality of the civil service, risk reducing government capacity, notwithstanding measures taken to build a 'small and beautiful' government. In Australia, the 'professionalisation of politics' seems to be not only undermining the capability of the civil service but more broadly constraining the capacity of the nation to address major economic, social and environmental policy challenges.

Against this somewhat negative assessment a range of improvements in public sector performance needs to be acknowledged in all three jurisdictions over the last decade. In Mainland China, enormous steps have been taken to develop a comprehensive social security system, health insurance and services for the aged, to expand and strengthen the education system and to address environmental issues, not to ignore the extraordinary investment in infrastructure including high-speed rail and 5G technology. Taiwan, too, has maintained stable and fair economic growth and seen ongoing improvements in public services and infrastructure, including medical care, preschool education, public housing, sports and leisure facilities, and transportation. Despite slow economic growth, Australia has also benefitted

from significant improvements in health, disability services, childcare and retirement incomes, is investing more in aged care, and has enhanced its infrastructure through the National Broadband Network and major city planning and transport. All three jurisdictions have also, with some swings and roundabouts, managed the COVID-19 pandemic better than most in terms of health outcomes.

Yet in all three there are common policy challenges that should receive more attention. These include climate change and other environmental concerns, regulation of technological giants including social media, post-COVID debts and the associated need for more economic reform, and international trade. Many of these require international cooperation, which is threatened by growing tensions. In addition, each jurisdiction has its own domestic challenges requiring policy and management capacity in government.

In this environment of sharpening differences and contested global developments, engagement has become more difficult. Yet engagement is arguably more important in such a context to better understand respective views and to look for shared interests. This is particularly the case in public administration and the machinery behind government decision-making, not only to better understand respective processes and practices but also to identify possible lessons which, suitably adapted, may be applied across jurisdictional boundaries. Such engagement can also serve to clarify fundamental differences that must be acknowledged and not hidden.

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Part 1: Intergovernmental relations

The Dialogue explored intergovernmental relations at its 2012 workshop, which led to a special issue of the *Australian Journal of Public Administration* (Vol. 72, Issue 3), and reviewed decentralisation developments at its 2014 workshop, which led to a symposium in *The China Review* (Vol. 16, No. 2). The differences between the unitary systems of the PRC and Taiwan and Australia's federal system were highlighted, the federal arrangement giving the states a degree of sovereignty, not just delegated authority, over their areas of responsibility. Another key difference is the PRC's five levels of government, compared to Taiwan's four and Australia's three, and the extensive role of townships and villages (the most local levels of government) in the PRC compared to the much more limited role of local government in Australia.

Nonetheless, the different systems grapple with similar challenges, whether balancing centralisation and decentralisation, managing central–local financial relations, identifying respective roles and responsibilities, or managing relationships and ensuring accountability. While Australia's federal system has operated for well over a century, these issues remain subject to debate, particularly in light of continuing social, economic and technological change: central government steadily increased its powers over the century; its domination of revenue-raising capacity requires elaborate systems of financial transfers; while the states continue to deliver most public services, the Commonwealth has become increasingly involved, for example, setting policy objectives or conditions or requiring performance reporting; and the machinery to manage the relationships has become more elaborate.

Arrangements in the PRC and Taiwan have yet to mature since the 'opening-up' reforms in the PRC and the democratisation reforms in Taiwan. There is much interest there in the frameworks that have emerged in Australia over both the long-term and more recently. At the same time, interestingly, the PRC's more systematic use of experimentation at both provincial and more localised levels offers a possible example of how Australia's federal arrangements could be better exploited to develop government policies and practices.

Reviewing intergovernmental relations now, it is clear that the core issues remain, but the context has shifted and may shift further in the decade ahead. COVID-19 has had a considerable impact as the national response—both health and economic—required active involvement by both central and local governments in all three jurisdictions; how lasting the changes will be remains uncertain. No less important has been political developments in the three jurisdictions.

In the first chapter, **Richard Hu** explores shifts in China's 'one country, two systems' policy as it relates to Hong Kong under Xi Jinping. While the Mainland's previous 'opening-up' agenda may have suggested a narrowing of differences between the political systems of the Mainland and Hong Kong, with the Mainland relying heavily on Hong Kong's legal system and international connections, any thought that may have existed in Hong Kong or elsewhere of convergence to a common democratic framework was naïve. Instead, Xi has strengthened central control by the Chinese Communist Party (CCP) over Hong Kong, constraining the territory's previous democratic and legal rights traditions. That said, the 'two systems' were already coming under increasing pressure from wider social and economic forces with the massive development of Shenzhen and Guangzhou and the growing integration of the Pearl River Delta conurbation; moreover, Deng Xiaoping's original idea of 'one country, two systems' always emphasised 'one country' and the overriding role of the CCP. Both the Chinese discourse and the Western discourse about recent developments are normative, value-laden and stance-based. Growing political and ideological differences have instrumentalised and weaponised these discourses in the geopolitical conflicts and confrontations between China and the West and the propaganda of each. These discourses are likely to continue to bifurcate, at least until China and the West can figure out a way to cope with their differences. In the meantime, both the city and the policy will move on.

While her chapter is in the next section, as its main focus is on budgeting and financial management, **Christine Wong** also refers to Xi Jinping's aim of achieving a more balanced central–local fiscal relationship. Expansion of 'harmonious society' public services had exacerbated the previous imbalance, adding to the expenditure responsibilities of local governments without providing them with access to the resources needed. While some action has been taken, progress on intergovernmental transfers and roles and responsibilities has faltered.

Youlang Zhang examines the impact of Xi's strengthening of central control on China's tradition of experimentation. He reveals that experimentation is still very much in use to test new policies and practices but more often now initiated by the central government rather than by lower-level governments, and aims to test the policies the central government is exploring. Bottom-up experimentation, aimed to demonstrate the usefulness of ideas generated by local governments, is less common under Xi.

Tsai-tsu Su and **Ming-feng Kuo** examine recent reforms in Taiwan aimed to strengthen municipal governments and their ability to respond to their local communities' needs and preferences. The results, they suggest, have been disappointing. The revised institutional arrangements have not gone far enough in giving the local governments autonomy, and so far the reforms have not been accompanied by 'open government' measures that might impose more accountability on the local political leaders by the media and civil society. While special municipalities have been given more resources, this is not the case for non-special-municipality governments; those governments face the greater problems of lack of adequate finances and lack of sufficiently skilled staff.

Alan Fenna describes how the Australian response to COVID-19 included the replacement of the Council of Australian Governments with the so-called National Cabinet of first ministers of the Commonwealth and state/territory governments, meeting weekly with the aim of achieving closer collaboration across governments. At least for the duration of the pandemic, Australia's long drift to centralisation experienced a pause or even some reversal as states and territories exercised authority over most of the pandemic controls, including testing, contact tracing, quarantine and precautionary measures such as mask-wearing, as well as travel restrictions and lockdowns, albeit ostensibly based on guidance agreed by National Cabinet on the advice of a committee of chief health officers. In the later stages, the federalist principle of state sovereignty has come to the fore as each jurisdiction pursued its own interpretation of National Cabinet decisions. Developments more generally over the last two decades reflect an almost chaotic, but ultimately quite telling, range of competing tendencies in both the federal balance and the working relations between the Commonwealth and the states. While long-run centralisation has continued, the states have also demonstrated their continuing importance and vitality.

Rachel Thompson reviews recent developments in Australia's federal financial relations. Some important modifications have been made to the longstanding arrangements for horizontal fiscal equity (HFE), aimed to ensure every state and territory has the capability to fund the resources needed to provide its population with broadly equal public services, despite varying capacity to raise revenues themselves and varying costs to deliver services. The modifications provide the states and territories with a little more certainty and stability without undermining the basic principle of HFE—Commonwealth transfers to achieve HFE had been fluctuating widely because some resources-dependent states in particular were affected

by sometimes large changes in Australia's terms of trade. Thompson also describes recent developments to achieve better coordination and collaboration when governments are dealing with major crises such as bushfires and COVID-19.

Bligh Grant and **Nicholas Aroney** review Australia's sub-provincial government arrangements, drawing attention (again) to local government's more limited role in Australia than elsewhere, including in other federal systems. Local government in Australia, as in other federal systems, is not an autonomous level of government but a creature of the states; the authors set out the ways in which the states determine their (delegated) functions and the various mechanisms for their oversight. Major reform of local government has not recently been on the national government's agenda, but the authors see significant incremental changes occurring, including through closer collaboration among neighbouring local governments; better linkages between these and regional structures and forums that the Commonwealth and state governments are using to improve service delivery and coordination; and closer attention to performance reporting including to the state governments. The authors also describe the role of special purpose local authorities, in particular the increasing importance of First Nations local authorities.

Key conclusions to draw from the chapters include the following:

- The three systems are very different, and the PRC's unitary arrangements are becoming even more centralised under President Xi;
- Centripetal forces remain strong, however, in all three jurisdictions, but intergovernmental relations are also very fluid, adjusting to address new challenges and responding to changes in political circumstances;
- The role of subnational governments nonetheless remains important, ensuring greater responsiveness to citizens and communities and offering opportunities for innovation;
- There remain significant issues, even in a mature system like Australia's, to clarify roles and responsibilities, financing and accountability, particularly as responsibilities are increasingly being shared.

Intergovernmental relations are also highly relevant to the issues explored in the following sections of the book, particularly financial management and service delivery.

2

‘One country, two systems’ in transition

Richard Hu

Abstract

The governance structure of ‘one country, two systems’ for Hong Kong is right at the midpoint of its 50-year tenure since the city’s return to China in 1997. Invented by Deng Xiaoping with a mixture of innovation, boldness, pragmatism and compromise, the policy design was of high strategic importance in Deng’s agenda not only of national unification but also of national modernisation. But the policy contains an intrinsic contradiction between ‘one country’ and ‘two systems’ at an operational level. The functioning of this contradiction has been determined by external and internal forces and intergovernmental power relationships. The rise of China’s economic power and political authoritarianism, Hong Kong’s internal divisions and frustrations, and increasingly confrontational geopolitics present settings that are profoundly different from the early 1980s when the policy was initially imagined and designed. An overall shift, albeit incremental and gradual, from ‘two systems’ to ‘one country’ has begun speeding up in recent years. The 2019 street movement, the 2020 national security law and the 2021 electoral system reform have expedited this shift. ‘One country, two systems’ is being reinterpreted and reinvented.

Keywords: one country, two systems; Hong Kong; democracy; authoritarianism; geopolitics.

Introduction

The 2019 street movement, the 2020 national security law and the 2021 electoral system reform in Hong Kong mark a turning point of ‘one country, two systems’, which is right at the midpoint of its 50-year tenure. Readings of these events, like many other readings about Hong Kong and aspects of (Mainland) China, often bifurcate, mainly between the Chinese discourse and the Western discourse. These discourses mix perspectives, stances, values, ideologies, geopolitics and wishful thinking. Hong Kong, as the most ‘un-Chinese’ Chinese city, is hotly debated and contested, within the city, within the nation and elsewhere. What has happened with regards to Hong Kong in recent years, and in recent decades, has meant different things, for different people, in different contexts. One central concern of these debates is about ‘one country, two systems’, the unique governance structure that has been applied to Hong Kong and Macau. ‘One country, two systems’ was originally proposed by Deng Xiaoping for Taiwan, in principle, to achieve China’s national unification. But it has been the most tested and contested in Hong Kong so far.

The events in 2019–2021 have raised a fundamental question: is ‘one country, two systems’ in demise or rebirth? This chapter attempts to address this question. It aims to unravel the very nature of ‘one country, two systems’—the way it was constructed, historically; and the way it is being reconstructed, *historically*. In doing so, this chapter examines the genesis and path of this policy until the present. This examination is grounded within the context of shifting relationality between Hong Kong and the Mainland to make sense of the construction and reconstruction of the policy, and to further inform a projection of its future.

Invented by Deng Xiaoping with a mixture of boldness, innovation, pragmatism and compromise, ‘one country, two systems’ was of high strategic importance in his agenda not only of national unification but also of national modernisation. However, the policy contains an intrinsic contradiction between ‘one country’ and ‘two systems’ at an operational level, shaping the way the policy has been proposed, implemented, interpreted and contested. The working of this contradiction has been determined by external and internal forces, by Hong Kong–Mainland power relationships, and further by geopolitical manoeuvring between China and the West. The rise of China’s economic power and its return to firm political authoritarianism, Hong Kong’s internal socio-economic inequalities and political divisions,

and increasingly confrontational China–West geopolitics present settings that are profoundly different from the early 1980s when the policy was initially imagined and designed. The settings now are also different from those in the 1990s when wishful thinking in Hong Kong, and the West in a broad sense, ‘wished’ for democratisation in the Mainland, triggered by China’s pursuit for a market economy and embrace with the (Western) world. An overall shift—incremental, gradual, but steady—from ‘two systems’ to ‘one country’ since Hong Kong’s return in 1997 seems to be accelerating in recent years. The scale, extremity and complexity of the 2019 street movement, and the subsequent 2020 national security law and 2021 electoral system reform have been expediting this shift towards a critical turning point. ‘One country, two systems’ is being reconstructed, through reinterpretation and reinvention, to ensure that ‘one country’ dominates ‘two systems’ in the new national and international contexts.

This chapter is structured to address the above aim and issues sequentially. In the second section, it revisits Deng Xiaoping’s notions and directives of ‘one country, two systems’, which are the foundation of the policy and its subsequent evolution. The third section tackles the conflicts between Hong Kong and the Mainland since the former’s return to China, through discussing several signature policy initiatives which, despite some good intentions, have achieved the opposite policy outcomes. The fourth section critically unpacks the structural contradictions between Hong Kong and the Mainland under ‘one country, two systems’, and the operationalisation of these contradictions that have paved the bumpy way for Hong Kong’s return. The fifth section compares Hong Kong and Shenzhen, to zoom in on the shifting relationality between them in the context of China’s economic rise. The sixth section explains how the chain of events from 2019 to 2021 have fundamentally reoriented, if not reversed, the pathway of ‘one country, two systems’, marking a turning point of the policy’s journey. The chapter concludes with a brief imagining of Hong Kong’s future under the reconstructed ‘one country, two systems’ approach.

Back to the origin: Deng Xiaoping

Hong Kong is a colonial legacy of a humiliating period in Chinese history. The British army invaded China in 1840, which signified the beginning of the collapse of an old empire, as well as the beginning of the building of a new one. Hong Kong, originally a fishing village and a salt production

site, was ceded and leased to British rule, incrementally through several forced treaties with the Qing Dynasty Government between 1842 and 1898. In 1949, the People's Liberation Army (PLA) of the new communist regime, sweeping across the nation with an avalanche victory in the civil war against the nationalists, who fled to Taiwan, could have 'liberated' Hong Kong at that time with military ease. However, the PLA held its advance at the Shenzhen River and did not move across the border. Not to take over Hong Kong was a considered decision by Mao Zedong and his communist comrades. This decision proved strategically right: it has brought benefits, foreseen and unforeseen, to the newly established People's Republic of China (PRC). A colonial Hong Kong under the British rule was the PRC's only major access to trade and relationship with the West. This connection through Hong Kong was especially important for the PRC when it was under Western embargo during the early Cold War period. Maintaining a reasonable relationship with the United Kingdom via Hong Kong was a useful portal for China to engage with the West and the broader international community. Most importantly, Hong Kong's growth into an international metropolis during the postwar decades played an indispensable role in China's 'reform and opening-up' since 1978, an outcome unanticipated and maybe undesired by Mao Zedong, but well appreciated and utilised by his successor Deng Xiaoping.

A revisit to the originator of 'one country, two systems'—Deng Xiaoping—helps clarify several (mis)perceptions about Hong Kong's democratisation, autonomy and geopoliticisation in relation to China and the West. Deng invented the policy that has been in place for governing Hong Kong since its return to China on 1 July 1997. This policy was not invented for Hong Kong only; it was Deng's strategic approach to national unification with Taiwan, Hong Kong and Macau, which had been separated from Mainland China for various reasons and in different historical contexts—foreign invasions or civil war. Deng first publicly raised this notion for Taiwan on 26 August 1981 (Party Literature Research Centre of the CPC Central Committee 2004). On 24 September 1982 when he met with Margaret Thatcher in Beijing, Deng informed her that China would take over Hong Kong in 1997 and Hong Kong's 'capitalism', including its political and economic systems and most laws, would not change after that (Deng 1993). Deng's notion developed into so-called 'one country, two systems', which was instituted by the Basic Law, a bespoke mini-constitution ensuring Hong Kong's 'high degree of autonomy' for a term of 50 years after its return.

At a strategic level, 'one country, two systems' is an innovative policy invention to combine contradictions within a unity, based upon political vision, boldness, pragmatism and compromise. At an operational level, this political endeavour leaves considerable grey area for interpretation and leverage, making it an evolving policy, shaping and being shaped by the forces in play. Being experimental, evolutionary, contradictory and contentious has characterised the short history of this policy's implementation, as is explained in sections below.

Deng Xiaoping's encounter with and interest in Hong Kong could date back to 1920, when his ship stopped there on route to France (Vogel 2011). Deng was 16 years old, going to the West to study. In early 1992, when he was 88, Deng publicly expressed a wish to visit Hong Kong after its return to China. This wish was not fulfilled: he passed away on 19 February 1997 before Hong Kong's return on 1 July in the same year. Hong Kong had always occupied a special position in his strategy of unifying, modernising and opening China. In the early 1980s, a policy like 'one country, two systems' could minimise the disruptions of Hong Kong's forthcoming return, which would likely happen not only to Hong Kong itself, but also to the city's crucially important role in Deng's 'reform and opening-up' agenda for China. Announcing the policy was a confidence-building initiative, especially to those Hong Kong-based local and international capitals—the most important source of foreign direct investment (FDI) that the Mainland needed. Hong Kong's importance, as an international financial centre, for the Mainland's development in the late twentieth century was well appreciated by Deng Xiaoping. On several occasions, Deng expressed a desire of building several 'Hong Kongs' in the Mainland, including on one occasion during the Tiananmen Square movement—a students-led pro-democracy and anti-corruption movement clamped down by the army—in 1989, to advocate his open-door policies (Deng 1993).

Deng was explicit about the importance of maintaining Hong Kong's 'prosperity' and 'stability'—two keywords in the Chinese discourse of 'one country, two systems' and its application—before and after its return. In 1988, Deng used this importance to justify the necessity of the policy's 50-year term, the timeframe for China's growth into a 'medium-level developed nation' by the mid-twenty-first century in his modernisation strategy (Deng 1993). He assured the unchangeability of 'one country, two systems' by stating:

Actually, 50 years is a metaphorical term, ['one country, two systems'] won't change after the 50 years. Within the 50 years, it cannot change. After the 50 years, it is unnecessary to change. (Deng 1993:267)

This statement was based upon Deng's optimistic, confident forecast that China would have developed to a level that would render a change to 'one country, two systems' unnecessary when the 50-year term would expire in 2047. However, Deng did not specify how this logic would work—how a more developed China would be more unlikely to change 'one country, two systems'. History never evolves as promised; history follows its own trajectory.

Deng Xiaoping was an optimistic strategist; he was also a shrewd politician. He had a sharp comprehension of the historical, political and social complexity of Hong Kong, rooted in the city's colonial DNA, and associated with communist China's ideological differences from and geopolitical conflicts with the West. On several key occasions when discussing Hong Kong's future, Deng warned of possible instability, which could be caused by 'destructive forces' inside and outside Hong Kong and might happen before and after its handover (Deng 1993:73). He attached no less importance to Hong Kong's political stability than to its economic prosperity: he ascribed one potential source of instability to the Western political system and justified the necessity of central government's intervention in Hong Kong affairs. He stressed these points repeatedly.

In October 1984, when meeting a Hong Kong delegation to Beijing, Deng said:

Do not just worry about interventions generally. Certain interventions are necessary. We need to see if the interventions are conducive or harmful to the interests of Hong Kongers and Hong Kong's prosperity and stability ... Don't assume that there are not destructive forces ... Once turmoil happens, the central government should intervene ... There will be some factors of turmoil, troublemaking, and instability. Honestly, these factors won't come from Beijing; they may exist within Hong Kong or come from certain international forces. (Deng 1993:73–75)

In April 1987, when meeting the committee responsible for drafting the Hong Kong Special Administrative Region (SAR) Basic Law, Deng articulated his views on 'one country, two systems' most comprehensively. He particularly pointed out:

Hong Kong's [political] system should not be completely Westernised, should not just transplant the Western way ... If we just completely transplant, for example, the separation of powers and the British or American parliamentary systems, and judge

whether it is a democracy according to this, I'm afraid it is inappropriate ... For Hong Kong, universal suffrage is definitely advantageous? I don't believe it ... The people who govern the Hong Kong affairs must be those Hong Kongers who are patriots of the motherland and Hong Kong. Will universal suffrage definitely elect the right people? ... Don't assume that Hong Kong affairs will be the responsibility of Hong Kongers only, and the central government won't care at all, and then everything will be ok. This is impossible, and this thought is unrealistic. The central government won't intervene into the daily business of the SAR; it is unnecessary. But will there be events in the SAR that will damage the fundamental national interests? Won't they happen? ... Think about it soberly: will Hong Kong sometimes have problems that cannot be solved without Beijing's involvement? ... What if Hong Kong is turned into an anti-Mainland base under the disguise of 'democracy'? Then we must intervene. (Deng 1993:220–21)

In June 1988, Deng said:

Hong Kong needs stability. It needs to be stable during the transition period; it also needs to be stable after China resumes sovereignty and Hong Kongers are responsible for governing. This is the key. Hong Kong's stability, apart from economic development, requires a stable political system ... Hong Kong's political system today is neither the British system nor the American system, and should not transplant the Western way in the future. (Deng 1993:267)

Deng Xiaoping made these statements and warnings more than 30 years ago. They seem to anticipate the conflicts between the Chinese Government and the British Government with regards to the democratic reforms in Hong Kong in the 1990s before the handover, and the political conflicts and movements in Hong Kong in the twenty-first century. A series of political unrests, mixed with the city's economic fluctuations and social problems, have challenged and transformed the perception and practice of 'one country, two systems'. But the fundamentals of 'one country, two systems' were clearly defined and delineated by its inventor Deng Xiaoping: Hong Kong would not be democratised in a Western sense; Hong Kong would not be autonomous in a complete sense; patriotic Hong Kongers would govern the city; the central government would intervene should Hong Kong turn into turmoil or an anti-Mainland base. These fundamentals have underlain the construction and reconstruction of 'one country, two systems' in different contexts.

Conflicts in integration

Hong Kong, as an SAR under the governance structure of ‘one country, two systems’, formally returned to China in 1997. But Hong Kong’s economic integration with the Mainland started even earlier, from 1978 when China entered the ‘reform and opening-up’ era (Smart and Lin 2004; Shen 2008; Chan 2011). In the beginning of the twenty-first century, accelerated economic integration upset the Hong Kong–Mainland relationship, turning it into one of diverging rather than converging social acceptance and attitudes—a situation that was unforeseen in the 1980s when the ‘one country, two systems’ framework was designed.

This situation resulted, first of all, from the shifting economic power relationship between the ‘capitalist’ Hong Kong and the ‘socialist’ Mainland—the latter’s rapid rise and the former’s relative decline. A dividing line seemed to be the Closer Economic Partnership Agreement (CEPA) between the Mainland and Hong Kong, signed on 29 June 2003. CEPA, a free trade agreement to grant preferential access to markets, was meant to boost Hong Kong’s economy, which had been in recession since the 1997 Asian Financial Crisis and was further wrecked by the severe acute respiratory syndrome (SARS) outbreak in early 2003. CEPA’s stimulus to Hong Kong’s economic recovery was immediate and impressive: after 2003, Hong Kong’s economy reversed its downward trend and started to recover. The year 2003 thus seemed to mark a shift in the Hong Kong–Mainland economic relationship: before 2003, it was largely a one-way economic input from Hong Kong to the Mainland, or Hong Kong-led Mainland development; after 2003, it turned into a two-way economic interaction with increasing Mainland-backed Hong Kong development. Ever since, Hong Kong has been the primary destination of the Mainland’s outward FDI. In 2003, 40.25 per cent of the Mainland’s outward FDI went to Hong Kong; by 2016, this figure had increased to 63.03 per cent (Chen 2019).

CEPA and subsequent pacts on economic and social exchanges, while bringing about closer economic integration and more frequent social interactions, created unintended and undesired social and cultural outcomes that have divided many Hong Kongers and Mainlanders. Under CEPA, the earlier control on Mainland visitors to Hong Kong was significantly liberalised, to stimulate local tourism and the market. This included the introduction of an ‘individual visit scheme’, prior to which the Mainlanders could only visit Hong Kong in group tours or on a business visa. The effect

of this scheme was astounding: the number of Mainland visitors sharply increased after 2003 and became the dominant market source of Hong Kong's tourism (Chen 2019; Hong Kong Tourism Board 2020). Hong Kong was an ideal destination—for its geographical proximity, cultural kinship, economic and political freedoms, and international metropolis status—for investment, residence and shopping for those better-off Mainlanders.

The massive influx of the Mainlanders, an outcome of an economic rationale, exerted heavy pressures on Hong Kong's consumer products and civic infrastructures, and caused growing disquiet among many local residents. The disquiet was mixed with long-held differences over history, values and ideology between the two social groups; and further mixed with a disrupted perception of the Mainlanders—who were traditionally poor but many of whom were now (sometimes exceptionally) wealthy. Many Hong Kongers indulged in a sort of wishful thinking about 'one country, two systems', that the policy would ensure the city's status quo without re-embedding itself into the national and regional contexts, and they were thus unprepared when things happened against this wish (Lui 2015).

Here are two cases to illustrate the impact of the influx of Mainlanders on Hong Kong's local resources and attitudes. One is birth tourists, referring to the Mainland pregnant women giving birth in Hong Kong hospitals. Since 2001, the so-called 'doubly non-permanent resident (DNR) children'—born in Hong Kong but with neither parent a Hong Kong permanent resident—were entitled to become permanent residents of Hong Kong. Lured by the permanent resident status and enabled by the 'individual visit scheme' under CEPA, a rapidly growing number of birth tourists came to Hong Kong. In 2001, there were 620 DNR children, accounting for only 1.29 per cent of locally born children in the year; in 2011, the DNR children soared to 35,736, a share of 37.44 per cent of all local newborns that year (Chen 2019). These birth tourists generated pressures on the local hospitals and health facilities, and the DNR children would also access educational and civic resources in the future. Dissatisfied with these Mainland women and children, some extreme Hong Kongers labelled them with the derogatory term 'locusts'.

The other case concerns baby milk formula. In 2008, the Mainland fell into a crisis of distrust towards domestically produced baby milk formula, due to a scandal of milk adulterated with melamine, a toxic industrial compound. Hong Kong provided a ready source of such products with assured quality and reasonable prices. Mainland purchasing and illegal smuggling created

a shortage of baby milk formula for local Hong Kong consumers, which led to occasions of public protests against and conflicts with Mainland shoppers in the streets of Hong Kong.

From around 2010, antipathy towards Mainlanders was on the rise in Hong Kong. There were occasional incidents when Mainlanders were openly targeted and humiliated by some local residents in Hong Kong. These backlashes to the influx of Mainland tourists and shoppers caused some policy responses. A zero quota on DNR children was imposed on 1 January 2013, which significantly reduced the number of DNR children born in Hong Kong. In February 2013, the Hong Kong Government restricted shoppers' purchase of baby milk formula and clamped down on smuggling, alleviating local market shortages. From 13 April 2015, Shenzhen residents could visit Hong Kong only once a week, to limit the number of visitors. These policy changes, coupled with anti-Mainlander attitudes and incidents, discouraged Mainland visitors and consumers to Hong Kong. From 2015, the previous growth trend of Mainland visitors to Hong Kong reversed (Chen 2019).

Structural contradictions

This anti-Mainlanders sentiment is partially indicative of the structural contradictions between the Mainland and Hong Kong under 'one country, two systems'. These contradictions are dynamic and changing, constituting the shifting relationality between 'socialist' Mainland and 'capitalist' Hong Kong, which are quintessentially contradictory in a unity of 'one country'. The power relationships between the Mainland and Hong Kong, the major forces shaping these contradictions, have been shifting, leading to new forms of contradictions in recent decades. These new power relationships and new forms of contradictions are further reshaping the interpretation, operationalisation and leverage of 'one country, two systems'. These structural contradictions are examined below across three broad domains—economic, political and sociocultural—to inform an understanding of the contexts of 'one country, two systems' in transition.

The economic contradiction is the least contested, but is the most foundational in shaping the Mainland–Hong Kong relationality. China's economic rise into the world's second largest economy has marginalised Hong Kong's position in the national economic system. It is fair to say that Hong Kong's contribution to China's economic rise has been enormous: China's door was opened, first of all, to Hong Kong from the late 1970s.

By September 2017, 52.6 per cent of the cumulative FDI that was actually used in the Mainland came from Hong Kong; Hong Kong's share of annual FDI in the Mainland fluctuated between 30 per cent and 70 per cent in most of the years since 1978 (Chen 2019). FDI has played an indispensable role in China's rapid economic growth and urbanisation (Hu 2013). In 1978, Hong Kong's gross domestic product (GDP) was equal to 14 per cent of China's, and this figure reached a peak of 27 per cent in 1993; in 1997 when Hong Kong was returned to China, its share of China's GDP was 18.4 per cent, but this has since plummeted to only 2.7 per cent in 2018 (Sin 2019). As of 2019, three Chinese cities have surpassed Hong Kong in GDP: Shanghai, Beijing and Shenzhen. Hong Kong, despite being a leading global city, is being challenged and surpassed by the rising Chinese top cities, most importantly, by its neighbouring city Shenzhen. Here is an international comparison to further illustrate Hong Kong's economic challenge: in 2000, Singapore's GDP was 56 per cent of Hong Kong's; measured by GDP per capita, Singapore surpassed Hong Kong in 2003; in 2017, Singapore's total GDP surpassed Hong Kong's; in 2018, Hong Kong's GDP per capita was 75 per cent of Singapore's (Country Economy 2020).

These national and international comparisons reflect a decreasing competitiveness in Hong Kong's economy, despite being crowned as having 'the most economic freedom of the world', even in 2019 when the city was in a turmoil (Gwartney et al. 2019). The structural problems of the city's economy are generating social and political externalities within the city and in the national context. Hong Kong's increasing economic integration with the Mainland, while helping Hong Kong to draw upon the opportunities from the Mainland's economic growth and bringing Hong Kong onto the national development track, has come with strong political and social repercussions.

Politically, the central contradiction lies in the leverage between 'one country' and 'two systems'. The Mainland and Hong Kong may select the part of 'one country, two systems' that suits their preference and interpret it differently: for the former, it is a policy design for national unification; for the latter, it is a contractual guarantee for the SAR's autotomy even towards a more democratic system (Scott 2017), based on a sort of wishful thinking (Lui 2015). In the 1980–1990s 'two systems' prevailed over 'one country' in discourse and practice. For example, in 1989 Chinese president Jiang Zemin used the old Chinese saying 'well water won't interfere with river water' to describe the Mainland–Hong Kong relationship, analogising Hong Kong's autonomy and the Mainland's noninterference. This contradiction became

prominent in the twenty-first century when the central government asserted an 'overall jurisdiction' over Hong Kong in a white paper issued in 2014, responding to escalating pursuits for autonomy and democratisation in the city. The intrinsic contradiction in 'one country, two systems' was glossed over, intentionally or unintentionally, when the policy was initially designed and discussed. But the contradictory nature immediately emerged and took effect in the policy's early practice. The contradiction has been ever accelerating, increasingly bifurcating interpretations of and approaches to the policy. This bifurcation has materialised through the Mainland's rising authoritarianism under Xi Jinping vs Hong Kong's growing frustration with lack of progress in democratisation; and through the Mainland's assertion on national sovereignty and security vs Hong Kong's resistance against Mainlandisation and its anti-Mainland sentiment. These contradictions have contributed to a series of political protests and movements in Hong Kong, and determined the pathways of these political actions.

An associated social consequence of those economic and political contradictions in the policy is the growing alienation between many Mainlanders and many Hong Kongers. Kinship works in non-contradictory situations. When contradictions arise, a sense of supremacy among many Hong Kongers would surface when interacting with Mainlanders, as seen in those public anti-Mainlander incidents. On the other hand, after experiencing, observing and knowing a 'real' Hong Kong, with its structural economic and social issues, many Mainlanders become disillusioned with Hong Kong—a strong contrast to how the city was imagined through much of the twentieth century when few Mainlanders could visit it. A sense of nationalism, boasting of the nation's economic recovery and confident path towards modernisation, is rapidly surging in the Mainland. Within certain social groups, this nationalism is transitioning to a chauvinism about the 'China model', propagated as, at most, superior to and, at least, an alternative to the 'West model' that has defined what Hong Kong is about. For many Mainlanders, the colonial and Western elements in Hong Kong's history are a humiliation, and should be decolonised to embrace and nurture a centripetal identity of 'Chineseness'.

However, a powerful and assertive Mainland is accelerating the growth of localism and even populism in Hong Kong. Accordingly, there has been a growing de-identification with 'Chineseness', in favour of 'Hong Kongness'—a centrifugal identity inherited from the city's colonial history and connection with the West, to which Hong Kong belongs in the perceptions of many. This mindset has mingled with an anti-Mainland

mentality arising from 2003 and a latent distrust in the Chinese regime that has been long entrenched (Chan 2018). Outside the Mainland, there is a Greater China community, to which Hong Kong is integral. This Greater China community has been established upon a common historical and cultural identity, which differentiates itself from Mainland China—a communist regime—in terms of what defines 'Chineseness' or even Chinese nationalism and patriotism. The sociocultural divide between the Mainland and Hong Kong has never been wider than at the turn of the second and the third decades of the twenty-first century, more than two decades after the city's return. Hong Kong has returned constitutionally, integrated economically, but it has not returned socially and culturally for many Mainlanders.

Despite Hong Kong's return to China's sovereignty in 1997 under 'one country, two systems', this governance structure's contradiction and its economic, political and sociocultural representations have underpinned the city's political and social movements, which have been intensifying in the twenty-first century. The collective effects of these contradictions, coupled with the city's acute socio-economic inequality and livelihood challenges, culminated in the second half of 2019 when the city experienced its most traumatic and radical street movement against the governments of the Hong Kong SAR and China. This movement was ignited by a controversial extradition bill that was later withdrawn, but it instantly developed into a prolonged state of violence and social intolerance, correspondingly met with a firm police response, an unusual political disputation and social conflict in a global city like Hong Kong. This 2019 movement has split Hong Kong society and damaged the mutual Hong Kong–Mainland understanding to an unprecedented degree.

Hong Kong vs Shenzhen

No other pair of cities in the world is like Hong Kong and Shenzhen. They contradict in interdependence; they compete in collaboration. Geographically, they could be one city—it takes 14 minutes to commute between Shenzhen Futian and Hong Kong West Kowloon stations via a high-speed train. But a border line separates them into a 'socialist' Shenzhen and a 'capitalist' Hong Kong under 'one country, two systems'. Despite economic integration and infrastructure connections, the two cities

are historically and politically distinct. Investment and trade with Hong Kong count as foreign investment and international trade in Shenzhen (and the Mainland), and vice versa in Hong Kong.

The years 2019–21 have marked important milestones for both cities, in different, if not opposite, senses. In August 2019, when Hong Kong was in turmoil, the Chinese government promoted Shenzhen as a Pilot Demonstration Zone of Socialism with Chinese Characteristics to showcase the great achievement of the city as well as the nation. For Shenzhen, 26 August of 2020 was the 40th anniversary of its designation as a special economic zone (SEZ)—the earliest and the most strategic step for its growth from a fishing village into an international metropolis. For Hong Kong, the imposition of the national security law on 30 June 2020 was surely a turning point of the city's fate. One common reading of this law in the West is as a threat to Hong Kong's freedoms, rule of law and dynamism—the hallmarks of what Hong Kong was about. On 1 July 2021, the whole nation celebrated the 100th anniversary of the birth of the Chinese Communist Party (CCP) and the rebirth of the Chinese empire under the leadership of the CCP. In the official discourse, the journey of China's rebirth should trace back to 1840 when China was first invaded by the British army and Hong Kong was ceded as a result. Shenzhen is a primary symbol of the success of the party and of the nation. The nationwide buoyance overwhelmed another important fact: that the same date of 1 July 2021 also marked the 24th anniversary of Hong Kong's return, to which not many people even paid attention.

Shenzhen is a derivative city of Hong Kong. It was designated as an SEZ because of its proximity to Hong Kong, to capitalise on spillovers of investment, technology, knowhow and international markets. A local crisis also triggered the genesis of Shenzhen SEZ. In what's colloquially known as the 'grand flee to Hong Kong', nearly one million residents in Shenzhen and nearby areas of Guangdong province fled to Hong Kong to escape poverty, famine and persecution (Chen 2010). This phenomenon began from 1949 when the PRC was established, and it lasted for nearly three decades and reached a new climax in the late 1970s. Establishing an SEZ aimed not only to spearhead the nascent agenda of 'reform and opening-up', but also to provide local residents with economic opportunities to make the flight to Hong Kong less tempting. The rest is history.

Its relationship with Hong Kong has spurred Shenzhen's growth, which has further shifted the relationship between the two cities. Several measures illustrate the rapid growth of Shenzhen in comparison with Hong Kong.

Shenzhen's labour force and population overtook Hong Kong's in 1996 and 2000, respectively (Duhalde 2018). The economic shift, however, has attracted the most attention and discussion. In 1979, Shenzhen's GDP was negligible, accounting for only 0.09 per cent of Hong Kong's; in 2017, Shenzhen's GDP surpassed Hong Kong's for the first time (Duhalde 2018). Measured by GDP per capita, the gap between these two cities has been narrowing: in 1979, Hong Kong's GDP per capita was 53 times Shenzhen's; in 2017, Shenzhen's GDP per capita was 57 per cent of Hong Kong's (Duhalde 2018). Hong Kong's population was 60 per cent of Shenzhen's as of 2017 (Duhalde 2018). The difference in GDP per capita between Shenzhen and Hong Kong is explained by their population difference. It also reflects the qualitative difference between the economies of the two cities: Hong Kong remains more advanced and productive although Shenzhen is rapidly catching up and outperforms in aggregate.

From its birth, the central government has commissioned Shenzhen with a role of supporting Hong Kong's 'prosperity' and 'stability'—the two keywords emphasised by Deng Xiaoping in his notions about Hong Kong and 'one country, two systems' as stated earlier—through economic collaboration, social integration and infrastructure connections. In a national strategy launched in early 2019, both Hong Kong and Shenzhen were identified as economic engines for building the Greater Bay Area—a megaregion containing SARs of Hong Kong and Macau, and nine cities in Guangdong province (Shenzhen, Guangzhou, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing)—into a world-class urban conglomeration (State Council 2019), like the New York megaregion, the San Francisco Bay Area and the Greater Tokyo area. Similar strategies were also mapped out for the Yangtze River Delta region, led by Shanghai, and the Beijing–Tianjin–Hebei city region. These megaregional strategies have reflected the central government's increasing attention to so-called 'new-type urbanisation' and readiness to assume more responsibilities in coordinating the planning and development of these city regions (Podger et al. 2020). The difference of the Greater Bay Area strategy is that it also has a political mission of fulfilling 'one country, two systems'—bringing Hong Kong and Macau onto the track of regional and national development. From the central government's perspective, the 2019 movement in Hong Kong and COVID-19 suggested a need to expedite this regional development approach.

Hong Kong's leading role in the Chinese urban system is being challenged, especially by its neighbouring city Shenzhen. In much of 2020, Shenzhen was the best performing major stock market, not Hong Kong, New York or London, largely thanks to a quick recovery of the Chinese economy from COVID-19. Apart from being a financial centre, Shenzhen is also a high-tech hub, home to such giant firms as Huawei and Tencent. Shenzhen is reputed to be the smartest Chinese city and a global innovation leader. It is building the most advanced 5G digital network in the world to lead a new round of a global innovation race. Meanwhile, Hong Kong is lagging behind in capturing these new opportunities to rebuild its competitiveness, and is confronting many problems with grave uncertainties for its future.

This intercity comparison and competition between Hong Kong and Shenzhen (and other leading Mainland cities) present new challenges for the city governments and the central government. Without doubt, Hong Kong's role and importance in the Chinese economy today was not comparable with the 1980–1990s before its return. But Hong Kong remains a leading global financial centre and has advantages—its integration with the global financial market and its connection with the West—that cannot be easily imitated or replaced by other Chinese cities. Shenzhen and Shanghai have surpassed Hong Kong in aggregate GDP and have also grown into international financial centres in their own rights. However, they cannot replace Hong Kong, in the short term at least, especially in the 'soft power' that has been nurtured in the city's colonial, 'capitalist' past—free market economy, Western connections and associated trust and confidence, international norms, professionalism, rule of law and business environment. For the central government, it is probably neither its wish nor its interest to see Hong Kong be replaced by a Mainland city or to be Mainlandised. Maintaining Hong Kong's colonial legacy and Western connections under the frame of 'one country, two systems' serves the purpose of 'killing two birds with one stone': national unification and Hong Kong's 'prosperity' and 'stability'. However, these two birds cannot always be killed with one stone; they could fly in opposite directions.

A turning midpoint

As stated earlier, Deng Xiaoping designed 'one country, two systems' with a mixture of boldness, innovation, pragmatism and compromise in the early 1980s, targeting both national unification and national modernisation through 'reform and opening-up'. The intrinsic contradiction between 'one

country' and 'two systems' is analogous to the intrinsic contradiction of Deng's 'socialist market' reform across the Mainland. In both cases, there have been fluctuations in implementation. The operationalisation of them has been turbulent and evolutionary, subject to interpretation and transformation shaped by political and economic changes and dominant power relationships of the time. While China's economic liberalisation from the 1980–1990s did lead to some political reforms and greater personal freedoms, it was wishful thinking, mainly in Hong Kong and the West, that assumed some inevitable shift to democratisation of both Hong Kong and the Mainland and that 'two systems' would evolve into 'one country' that would be ultimately democratised, all in a Western sense.

The very contradictory nature of 'one country, two systems' has been exposed in a series of crises since Hong Kong's return, including the Occupy Central movement in 2011–2012 and the Umbrella Movement in 2014, each crisis leading to an incremental shift away from 'two systems' to 'one country'—the 'one country' based on the party-state system which has, since Xi Jinping's rise, returned to much firmer authoritarian control. Accordingly, the central government's narrative of the policy and manoeuvring of its implementation have changed from the metaphor of 'well water won't interfere with river water' to a constitutional assertion of 'overall jurisdiction', as stated earlier.

The year 2019 must be an important year in the future writing of Hong Kong's history, and of its relationship with the Mainland under 'one country, two systems'. For much of the second half of 2019, Hong Kong experienced its most radical street movement in recent decades. While no doubt responding to the shifting trajectory of 'one country, two systems', it divided Hong Kong society, challenged many aspects of the Hong Kong–Mainland relationship, and disrupted the beliefs and aspirations of many about the governance structure. It raised a fundamental question about the continued efficacy of 'one country, two systems', a policy designed in the late twentieth century, in the new settings of the early twenty-first century. The street movement has also paid an economic cost. The Hong Kong Government estimated that the city had a negative GDP growth rate of –1.3 per cent in 2019, and the city's economy 'has entered a technical recession' (Hong Kong Trade Development Council 2020). This recession was exacerbated by the outbreak of the COVID-19 pandemic which turned into a global recession in 2020. But the social and political costs have been more severe, although they are not as measurable as the economic cost.

The strongest backlash to the 2019 street movement has been political, unsurprisingly. The central government changed the high-level officials in charge of Hong Kong affairs in early 2020: Luo Huining was appointed the director of the Liaison Office of the Central People's Government in Hong Kong on 4 January; Xia Baolong was appointed the director of the Hong Kong and Macau Affairs Office on 13 February. Both appointees are veteran provincial party secretaries. They resumed their political careers in a sort of alien area, probably in a hope of bringing some fresh thinking and new approach to Hong Kong affairs through their political experiences and leadership. One common observation and criticism in the Mainland is that the leadership of Hong Kong affairs at the central government and the local government levels needed to be revamped, drawing upon the lessons of the city's poor governance. At the central government level, the leadership of Hong Kong affairs has traditionally comprised cadres with backgrounds in diplomatic and international relations. They lack the political vision and skills to tackle the complexity of Hong Kong, and have failed to engage the people and the real day-to-day issues within the city. Meanwhile, the long British rule of Hong Kong and the short history of handover have created a situation where the top administrators within the SAR government have been mostly elevated from the old civil service system. They are not home-grown public leaders who have the sort of political wisdom, capacity and responsibility that are commensurate with governing the city in such adversity. The appointment of veteran party secretaries to be in charge of Hong Kong affairs came as a surprise. What was more of a surprise were the measures taken by the central government after these appointments.

On 30 June 2020, the National People's Congress (NPC), China's legislature and nominally the highest organ of state power, passed the *Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region*; on 11 March 2021, the NPC further enacted the *Decision on Improving the Electoral System of the Hong Kong Special Administrative Region*. The 2020 national security law and the 2021 electoral system reform are indeed the latest and the most fundamental transformation of 'one country, two systems', responding to many issues and tensions that have been accumulating since Hong Kong's return and culminating in 2019. The scale and extremity of the 2019 movement exposed many of the structural problems—economic polarisation, social division and political distrust—within Hong Kong and between Hong Kong and the Mainland, which further involved geopolitical complexities.

The 2019 movement, ultimately, caused the central government to run out of patience due to concerns over national unification and security, as well as its lack of confidence in Hong Kong's capacity for self-governance.

A similar national security law, according to Article 23 of the Basic Law, was supposed to be enacted in and by Hong Kong. But it could not get through for 23 years after the city's return, out of opposition and concerns over its potential impacts on human rights and freedoms of expression and assembly. The central government has long had legitimacy to enforce such a law. It did not do so, arguably with unusual patience, tolerance and possibly good will, which all seemed to be overlooked within Hong Kong. In theory Hong Kong remained somewhat undefended for 23 years—which global city does not have a national security law in place? But the timing and the manner of this law's enactment, and its draconian and sweeping articles—an intentional policy design under Xi—are raising justified concerns over its (mis)use to clamp down on dissent in the name of national security.

The new electoral system adheres to the principle of 'patriots governing Hong Kong' set by Deng Xiaoping, changing the election systems and processes for the chief executive and the Legislative Council (LegCo). The change aimed to ensure the 'right' people for Beijing to be 'elected' to run the Hong Kong Government, which has been impacted and even paralysed by the city's political divisions and confrontations. The change systematically prevents the anti-government and broader prodemocracy members from entering the government. Most of all, it seals any imagination and wishful thinking that someday Hong Kong would be democratised in a Western sense. After the new election system was in place, Beijing got what it wanted in the latest elections of both the LegCo and the chief executive. On 19 December 2021, in the election of the 7th LegCo, nearly all seats were taken by pro-establishment 'patriots' apart from one non-establishment member. On 8 May 2022, in the election of the 6th term of the chief executive, John Lee, the only candidate and a firm 'patriot', won it unanimously.

Hong Kong is being transformed in critical situations both at home and in its international role and relationships. With the rise of authoritarianism in Xi Jinping's 'new era', China is asserting a national rejuvenation under the grand narrative of the 'Chinese dream'. Internationally, China and the United States are perceiving each other as competitors and threats, with the risk of either decoupling or confrontation on many fronts. Hong Kong,

the connector between China and the West previously, is being repositioned as a hotspot of geopolitics by forces external to the city itself. The national security law and the electoral system reform have been received with mixed reactions in the international community. Many nations view them as China's internal affairs and most have been prudent in reacting. The West's reactions—including accusations, criticism, and sanctions on the basis of advocating democracy, freedoms and human rights—have attracted counter-reactions from the governments of Hong Kong and China, claiming double standards, hypocrisy and interference. The China–West difference and confrontation with regards to Hong Kong during and after the 2019 street movement would instantly remind many people in (Mainland) China of Deng Xiaoping's prophecy about 'destructive forces' made in the 1980s; Western responses have simply bolstered the central government's commitment to top-down intervention in Hong Kong affairs, which was emphasised by Deng Xiaoping in his initial notions about 'one country, two systems'.

The Chinese discourse and the Western discourse about Hong Kong and 'one country, two systems' are not necessarily in stark contrast. For the Chinese discourse, the central notions are national unification and security, and Hong Kong's 'prosperity' and 'stability'; in the Western discourse, such terms as democracy, freedoms and human rights express the central concerns about the Hong Kong situation. These two sets of discourse could have established some sort of dialogue and shared understandings if it were not for ideological differences and geopolitical confrontations between China and the West. Those 'good' notions in each discourse could be weaponised by each side when the broad circumstance would require them to do so. In the escalating confrontation between China and the United States (and the broader West) in many fronts, their discourses of Hong Kong are bifurcating, rather than converging, accusing each other of wrongdoing. For the West, the constitutionally legitimate national security law could be read as a threat to all those Western values in Hong Kong. For China, its definition of 'democracy' is surely different from the Western one, and serious discussions about 'democracy' in Hong Kong happened only after the colonial city's return to its motherland.

Conclusion: Looking to the future

In its short history, 'one country, two systems' has been hotly contested in several crises before and after Hong Kong's return to China in 1997. Under a crisis-transformation logic, every crisis in the end has led to a new set of organising principles that has redefined and thus transformed 'one country, two systems' (So 2011). The severity of the 2019 street movement, along with the rise of China and its more recently strengthened authoritarianism and nationalism, and the new geopolitical context, have all shaped the scale of transformation that has followed the crisis. But the national security law and the electoral system reform might not be the only transformation. They could usher in a series of further systematic, long-term transformations to Hong Kong. 'One country, two systems' is being reconstructed through reinterpreting the policy and redesigning the institution, shifting a previous preference towards 'two systems' to an asserted focus on 'one country'. The principal contradiction within the policy determines that it has had to be constructed and reconstructed in different contexts. Today's context is fundamentally different from when the policy was first initiated and made, and so too are the policy's interpretation, institutionalisation and operationalisation.

Currently, the dominant discourse within the Mainland is that 'one country, two systems' is shifting from a *passive* mode to an *active* mode, and Hong Kong is experiencing its 'second return' to China. The central government's resolute and forceful intervention was triggered by the 2019 street movement. But it has strategically drawn upon reflections on Hong Kong's bumpy road after its return and on the governance and policy failures at both the central government and the SAR government levels under 'one country, two systems', an experimental policy design itself.

What will be the future of Hong Kong and 'one country, two systems'?

What happened in 2019 may not happen again. The central government, on several strategic occasions, has committed to strengthening the governance capacity, rejuvenating the economy and enhancing the livelihood of residents in Hong Kong. It is anticipated that the central government will support the SAR government, with delegated policy tools and state resources, to address the political division and resultant governance ineffectiveness, and the enlarging economic inequality and enduring social problems. These structural problems have inflicted the city for a long time and have not attracted adequate attention in a city that has inherited

a 'capitalist' tradition of small government and a free market. These problems are major contributors to the series of street movements—at least as commonly perceived in the Mainland. Hong Kong will inevitably be further integrated in the regional development of the Greater Bay Area and the national development system, a process that had begun before 2019. At the same time, the city that had been under the British rule and part of the Western world for one and a half centuries will be decolonised and de-geopoliticised—a process that has already begun, explicitly, after 2019. These processes are being boosted and 'legitimised' by a surging nationalism and pride in a 'China model', which is intentionally differentiated from, and declared to be superior to, the 'Western model' in the new narrative of Xi Jinping's 'new era' and 'Chinese dream'.

Hong Kong's 'prosperity' and 'stability' will continue to be the keywords and primary policy goals of 'one country, two systems', in rhetoric and in practice. The Western discourse of Hong Kong's democracy, autonomy and freedoms have rapidly escalated during and after the 2019 street movement, lamenting the undermining of them by the central government's intervention into Hong Kong affairs to justify those geopolitical reactions and linking them to other authoritarian measures taken by Xi Jinping. The Chinese discourse and the Western discourse—both are normative, value-laden and stance-based—are not necessarily incompatible, but are open to interpretation, manipulation and leverage. It is the growing political and ideological differences that have instrumentalised and weaponised these discourses in the geopolitical conflicts and confrontations between China and the West and the propaganda of each. These discourses are likely to continue to bifurcate, as will the readings and interpretations of Hong Kong and 'one country, two systems', at least before China and the West could figure out a way to cope with their differences. Despite these, both the city and the policy will move on—being constructed and reconstructed in contexts and by forces that are often external to the city. Hong Kong, a city that people have attached various perceptions and emotions to, is being remade into a city that is surely different from what it used to be.

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3

Vertical power structure and policy experimentation in Xi's China

Youlang Zhang¹

Abstract

This chapter investigates the change of China's vertical power structure under the leadership of Xi Jinping and how it affects the recent practices of policy experimentation in China. Based on existing literature on intergovernmental relations and policy experimentation, this chapter points out that both central and local policymakers have the desire and incentive to initiate policy experiments to improve policies or their administrative effectiveness, including in response to international and domestic developments. This chapter then offers a novel framework predicting that the change of vertical power structure may have differing effects on central-led and local-led policy experimenters. Empirically, descriptive evidence drawn from multiple sources in various policy domains from 2013 to 2020 shows how changes in the fiscal, administrative and political power structures influence the central- and local-led policy experiments.

Keywords: vertical power structure; decentralisation; multilevel governments; policy experimentation.

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Introduction

Policy experimentation has been viewed by scholars in economics, political science, public administration and public policy as an important driver of China's economic growth and social development in recent decades (Qian et al. 2006; Heilmann 2008b; Xu 2011; Teets and Hurst 2014). An increasing amount of literature suggests that Chinese policymakers use policy experiments to fine-tune or reform policy goals or instruments to adapt to changing environments (Heilmann 2008a; Wang 2009). A key institutional determinant of policy experimentation in China is the division of powers between the central and local-level governments—the vertical power structure that shapes the intergovernmental interactions in China's multilevel system. A common argument in previous research is that decentralisation benefits policy experimentation while centralisation hurts it. However, extant studies rarely distinguish between decentralisation's effects on central-led and local-led experiments (Kollman et al. 2000; Cai and Treisman 2009; Teets and Hasmath 2020). Policy experiments initiated by the central or local governments rely on different powers and resources. This begs the question, 'Do centralisation or decentralisation have differing effects on central-led or local-led experiments?' Answering this question can provide scholars and practitioners with important insights into the patterns of policy experimentation, the dynamics of intergovernmental interactions and the potential determinants of the performance of different levels of governments across jurisdictions or countries.

In this chapter, I provide theoretical and empirical analyses of the relationship between changes in the vertical power structure and policy experimentation in China under the leadership of Xi Jinping. In the theory section, I first show that policy experiments in China could be classified into two categories: central-led and local-led policy experiments. A central-led policy experiment refers to the top-down policy process in which the central government initiates and supports the experimentation of a new policy or project, while a local-led experiment refers to the bottom-up policy experimentation process initiated and supported by a local government. I then point out that both central and local policymakers have the desire and incentives to initiate policy experiments to improve policies or their administrative effectiveness, including in response to international and domestic developments. However, policymakers' experimental activities are also affected by the powers and resources they can directly control.

Therefore, I predict that although centralisation (decentralisation) might decrease (increase) local-led experiments as previous research suggests, it might increase (decrease) central-led experiments.

In the empirical section, I present a descriptive analysis of information collected from multiple sources, including thousands of central and local policy documents, finance yearbooks and archival records of the Innovations and Excellence in Chinese Local Governance (IECLG) Awards Program in 2015 and the Chinese Urban Governance Innovation (CUGI) Awards Program in 2018. The descriptive empirical evidence shows that the changes in the vertical power structure in Xi's era could be characterised as political centralisation, fiscal centralisation and administrative semi-decentralisation. While these changes were taking place, central-led and local-led policy experiments generally increased from 2013 to 2017 but decreased after 2018. The patterns of central-led and local-led policy experiments in various specific policy domains are also discussed.

The rest of this chapter is organised as follows. First, I briefly review the literature on policy experimentation and vertical power structures in China and discuss the theoretical and empirical limitations of the extant literature. Then, I theorise the relationship between the vertical power structure and the central-led and local-led policy experiments and put forward theoretical predictions. After describing this study's data and method, I report the empirical findings based on a series of descriptive analyses of evidence drawn from multiple sources. Finally, I conclude by highlighting this chapter's contribution to the literature and discussing potential directions for future research.

Literature review

Policy experimentation refers to a policy process in which governments try out various policies to find solutions to predefined policy problems (Heilmann 2008b). In recent decades, regional policy experimentation has become a worldwide trend in public policy. It has been widely lauded by social scientists because it has the potential to induce reforms and innovations that could be conducive to socio-economic development (Hayek 1978; North 1990; Mukand and Rodrik 2005; Shipan and Volden 2006; Zhu and Zhang 2020). Extant research suggests that the attributes of policy domains, the characteristics of political and bureaucratic institutions, and

external pressures could significantly shape governments' choices regarding policy experimentation (Berry and Berry 1990; Shipan and Volden 2012; Zhang 2021).

Nevertheless, it was not until the 2000s that scholars attempted to systematically analyse why and how policy experimentation occurs in China and pointed out its important role in China's economic rise. For instance, borrowing the concepts of U-form (i.e. a unitary form with specialised units along functional lines) and M-form (i.e. a multidivisional form with semi-autonomous units that have their own self-contained structures) organisational structures in organisation theory (Williamson 1975; Chandler 1990), Qian, Roland and Xu (2006) suggest that, compared to the U-form government organisations in the former Soviet Union, China's M-Form government organisation provides local leaders with sufficient autonomy to engage in policy tasks with firsthand information, thus creating the institutional foundation for its flexible policy experimentation. Heilmann (2008b:1) and Xu (2011:1076) further highlight that China's policy experimentation has stimulated policy learning and economic expansion and that the pattern of 'experimentation under hierarchy' or 'regionally decentralized authoritarian regime' has been essential to China's reform and opening-up policies. Extensive empirical studies have quantitatively or qualitatively analysed various policy cases to explain the generation, development and diffusion of specific policy experiments in China (e.g. Ma 2013; Zhu 2014; Zhang and Zhu 2020).

One popular argument based on existing studies is that decentralisation promotes policy experimentation in China (Zhang and Zhu 2019). For instance, Xu (2011) and Yao (2018), drawing on a systematic review of political economy literature on China, argue that although China's government has a centralised personnel control system, its decentralised operation system has induced regional competition and regional experimentation among subnational governments since the 1980s through providing them with the necessary power, resources and motivations for adopting new policies and projects. In recent years, other scholars have further pointed out that President Xi's centralised policies since 2013 under the guise of 'top-level design' and anticorruption dramatically reduced subnational officials' discretion and incentives to innovate, thus considerably reducing the cases of policy experimentation in China (Chen and Göbel 2016; Teets and Hasmath 2020; Tsai and Zhou 2019).

Despite the fruitful insights developed by existing studies on the relationship between the vertical power structure (i.e. centralisation or decentralisation) and policy experimentation, there has been little literature explicitly distinguishing the potentially different effects of the change of vertical power structure on central-led or local-led policy experiments. While the existing theoretical analysis might suggest that the change of vertical power structure would affect local-led policy experiments through shaping the allocation of powers and resources, how does such a change affect central-led policy experiments? Could there be an increase in central-led policy experiments simultaneously with a decrease in local-led policy experiments? Answering these questions could not only help us form a deeper understanding of the potential effects of changes of vertical power structure but also provide practitioners with useful knowledge regarding institutional design and resource allocation in policy experimentation.

Moreover, as Xu (2011) points out, most existing empirical research only collects information on the change of fiscal vertical power structure, presenting general conclusions regarding centralisation or decentralisation and their potential consequences (Montinola et al. 1995; Lin and Liu 2000; Cai and Treisman 2006; Ding et al. 2019). One major reason is that information on fiscal power is more readily available and measurable than information on political or administrative powers. Nevertheless, different aspects of the vertical power structures may change at different paces and in different directions during the same period. Therefore, the trends of policy experimentation may vary between policy domains and should be examined carefully.

Framework

To address the above limitations, this chapter offers a novel and straightforward theoretical framework to predict the effects of a change in the vertical power structure on policy experimentation in China. Before I conduct the theoretical analysis, I need to conceptualise and distinguish the core concepts in the framework: policy experimentation (i.e. the outcome variable) and the vertical power structure (i.e. the explanatory variable). First, given that all subnational governments are viewed as local governments in China's unitary system, I divide the general concept of policy experimentation into two categories: central-led experimentation and local-led experimentation. Specifically, central-led experimentation refers

to the top-down policy process in which the central government initiates and supports the experimentation of a new policy or project. Local-led experimentation refers to the bottom-up policy process in which a local government initiates and supports the experimentation of a new policy or project. Notably, the central-led experimentation may be implemented by the central or local governments; by contrast, the local-led experimentation could only be implemented by local governments.

Second, based on extant literature (Schneider 2003), I analyse the change of vertical power structure in terms of the allocation of three types of powers between the national and subnational governments: political powers, fiscal powers and administrative powers. The political powers mainly include the political functions of governance, such as legislation, personnel mobility and political representation, etc. Notably, personnel mobility is included under political powers rather than administrative powers because, in China, there is no distinction between politics and administration and the civil service is subject to direct control by the Chinese Communist Party (CCP) and its Organization Department. The fiscal powers mainly refer to the management of government revenues, government expenditures and tax administration, etc. The administrative powers mainly include management autonomy regarding various administration functions, such as market regulation, education, transportation, healthcare and environment protection. All three types of powers could influence policy experimentation but financial and administrative powers may directly affect the design and implementation of experiments by providing the necessary resources and policy autonomy, while political powers might influence policy experiments in more indirect ways, such as cadre appointments and legislation changes.

I further distinguish two forms of vertical power structure change in a policy domain (Schneider 2003). Specifically, centralisation means powers and resources are shifted from subnational governments to the national government, which implies that subnational governments' discretion to voluntarily adopt a new policy or project decreases, while the national government's capability to directly design, coordinate or implement policy experimentation increases. By contrast, decentralisation means powers and resources are shifted from the national government to subnational governments. In this situation, subnational governments' discretion to voluntarily adopt a new policy or project increases, while the national government's capability to directly design, coordinate or implement policy experimentation decreases. Admittedly, centralisation and decentralisation can happen simultaneously under multiple dimensions. Therefore,

in this chapter, the centralisation or decentralisation of political, fiscal and administrative powers or resources will be analysed separately in the later sections.

On this basis, my theoretical framework predicts that the change of vertical power structure may have differing effects on central-led or local-led policy experimentation. Since China adopted its reforms and opening-up policy in the 1980s, its policy environment has been shaped by international and domestic social, political and economic developments and has been subject to more frequent changes and uncertainty (Zhu and Zhang 2019). Central-level policymakers are constrained by limited time, resources and information about local circumstances and regional disparities. Local policymakers, besides their limited time and resources, are further restricted by potential political, fiscal or administrative constraints from the central government.

Previous research suggests that policy experimentation could help overcome uncertainty associated with policymaking in at least two ways in China (Xu 2011). First, policy experimentation could help test the technical quality of proposed policy innovations in the real world (Wang 2009). In particular, policy experimentation could reveal the relative advantage or disadvantage of a new policy compared to an old policy while limiting the risks involved by restricting the scope of its practical effects to a small area without affecting the rest of the country or jurisdiction. Second, policy experimentation could improve the political legitimacy of a reform (Cai and Treisman 2006). In China's reform history, policy experimentation has been viewed as an important political strategy to promote reform because a successful policy experiment could directly increase political support and decrease political resistance (e.g. the household responsibility system in the rural land reform in the late 1970s and the special economic zone reform in the 1980s) (Ge 1999; Lin 1992).

Given enough resources and powers, it is reasonable to expect that the central government would be willing to initiate policy experimentation to deal with uncertainty and support socio-economic development (Wang 2009). Similarly, according to the existing observations, it is reasonable to expect that subnational governments with enough resources would be willing to initiate policy experimentation to improve their performance and outperform their competitors (Zhu and Zhang 2016, 2019). Therefore, other things being equal, when the vertical power structure in a specific policy domain is centralised (decentralised), a motivated central (local)

government has more (fewer) resources and powers to initiate policy experimentation, and therefore, the likelihood of central-led (local-led) experimentation increases (decreases). Figure 3.1 shows the main theoretical predictions.

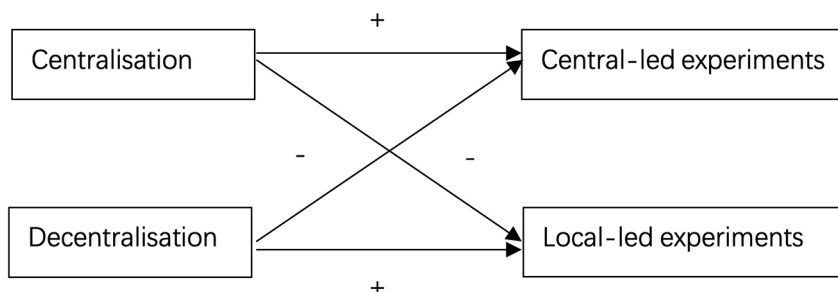


Figure 3.1: A theoretical framework for the effect of vertical power structure change on policy experimentation.

Source: Author's summary.

Methodology

Despite the theoretical analysis in the previous section, it is difficult to measure empirically the causal impact of a vertical power structure change on central- or local-led policy experimentation. Ideally, to identify the theorised causal effects, I need to compare the number of policy experiments in a centralised policy domain with the number of policy experiments in a decentralised policy domain or calculate the change in the number of policy experiments before or after centralisation (decentralisation) within the same policy domain, assuming other things being equal. However, other things are not equal, and policy experiments across policy domains and years tend to be heterogeneous and therefore not directly comparable.

Accordingly, this chapter presents an exploratory empirical analysis to provide first-order suggestive evidence that supports the theoretical predictions and provides a scholarly basis for future theoretical or empirical research on the same topic. Specifically, this chapter focuses on Xi's era because Xi has led a series of structural changes in China's bureaucratic system and policy process since he became the president of China in 2013. Investigating Xi's era not only helps us explore the applicability of my theoretical framework, but also provides useful guidance for predicting policy practices in China in the future.

Specifically, I collect data from multiple sources to capture both changes in the vertical power structure and trends in policy experimentation in China between 2013 and 2020; I pay particular attention to the major organisational reforms led by the central government in 2013 and 2018. First, thousands of official policy documents on the variables of interest were collected from the website of PKULaw because it has nearly complete coverage of laws, regulations and policy documents promulgated by the Chinese central and local governments. Second, I collected socio-economic information from the *Finance Yearbook of China* and the website of the National Bureau of Statistics. Third, I collected the archival reports of local innovation cases from the websites of IECLG² and CUGI³ and coded the cases following the practices of previous research on a similar topic (Wu et al. 2013). In the following sections, I first present the empirical analysis of the changes in the vertical power structure and then report the trends among cases of central-led and local-led policy experiments.

The change of vertical power structure in Xi's era

I collected the information on the changes in the vertical power structure mainly by systematically searching, reading and analysing policy documents relevant to the allocation of power and resources between the central and local governments under the leadership of Xi Jinping from 2013 to 2020. To ensure the comprehensiveness of data collection, I first read the work report of every national congress and every plenary session of the 18th and 19th Central Committee of CCP and the annual reports on the work of the government, and identified the potentially centralising or decentralising reforms in each policy domain. I further looked through specific institutional reforms and functional transformation plans to finally determine whether centralisation or decentralisation has occurred in a policy domain.

2 Research Center for Chinese Politics, Peking University. Accessed 30 January 2022. Available at: www.rccp.pku.edu.cn/zxyj/zfcxj/index.htm.

3 Institute of Urban Governance, Peking University. Accessed 30 January 2022. Available at: www.iug.pku.edu.cn/index.htm.

Political centralisation

Based on these data, I find that the change in the vertical power structure in Xi's era can be characterised as political centralisation, fiscal centralisation and administrative decentralisation. Xi, as the general secretary of CCP, has significantly centralised political powers in two main ways. First, CCP has directly increased its control over the government. For instance, in 2018, according to the *Decision of the CCP Central Committee on Deepening the Reform of the Party and State Institutions (2018)*, the Central Organization Department of CCP started to uniformly manage all civil servants in China; the superior-level party committee and organisation department increased their voice and responsibility in selecting lower-level leaders; various informal leading small groups in the central committee of CCP have been institutionalised to be formal commissions, for example, the Central Cybersecurity and Informatization Small Leading Group was transformed into the Central Cybersecurity and Informatization Commission, and the National Supervisory Committee was created to lead long-term anti-corruption campaigns, which have become an important political constraint for subnational governments (Yang 2020).

Second, the CCP has increased control over its members. In recent years, Xi has repeatedly highlighted the importance of maintaining and strengthening the centralised and unified organisational system of CCP. In 2019, the central government promulgated the *CCP Regulations on Requesting Instructions and Reporting on Major Matters (2019)*, which aimed to reduce the discretion of lower-level party organisations and improve the implementation of major decisions of the CCP Central Committee. According to the annual report published by the Organization Department of CCP, CCP has 91.91 million members and 4.68 million grassroots organisations as at 31 December 2019 (Organization Department of CCP 2019). These CCP members and grassroots organisations work across industries and public, private and non-profit organisations. In other words, when the CCP central committee increased its control of party members, they not only increased the party's control of the government but also increased the party's control of society.

Fiscal centralisation

China implemented its tax-sharing system in 1994, with a value-added consumption tax collected by the central government, and local business tax and income tax collected by the local governments, and with the value-

added tax shared between the central (75 per cent) and local (25 per cent) governments (Niu 2013). Central and local tax bureaus were separately created for the collection of central and local taxes. As Figure 3.2 shows, a direct consequence of this tax-sharing system is that the percentage of local revenue in total revenue is now much lower than the percentage of local expenditure in total expenditure and, therefore, an intergovernmental transfer payment system had to be created for the central government to transfer resources to local governments (Podger and Chan 2021).

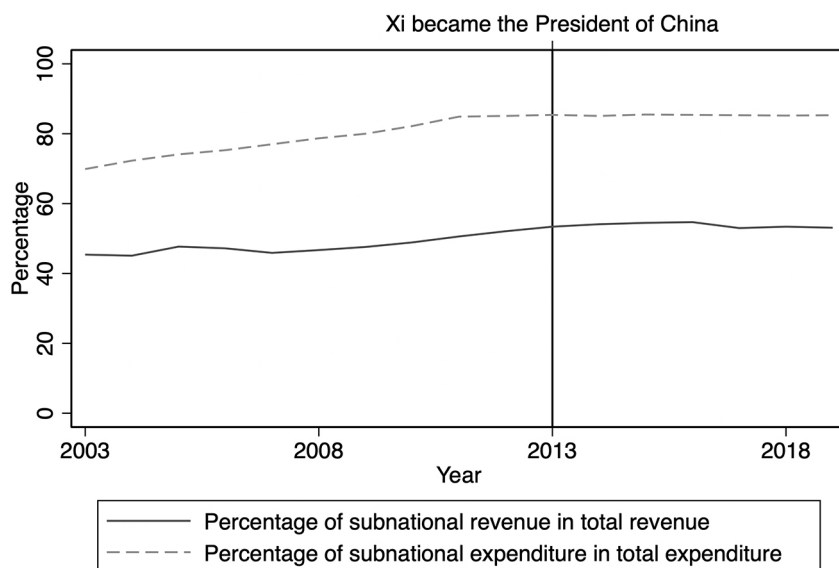


Figure 3.2: The percentage of subnational revenue (expenditure) in total revenue (expenditure).

Source: *Finance yearbook of China* (2020).

Nevertheless, although the percentage of local revenue (expenditure) in total revenue (expenditure) has remained stable in Xi's era compared to his predecessor Hu Jintao's era (2003–2012), the tax-sharing system has been further revised under the leadership of Xi to improve the central government's control of tax sources. In 2016, according to *Notice of the State Council on Issuing the Transitional Plan on Adjusting the Distribution of the Value-Added Tax Revenue between the Central Government and the Local Governments after the Comprehensive Promotion of the Pilot Program of Replacing Business Tax with Value-Added Tax (2016)*, the central government replaced the originally locally owned business tax with increases in value-added tax and adjusted the distribution of the value-added tax revenue between the central and

local governments from 75:25 to 50:50. The central and local tax agencies at and below the provincial level were merged in 2018. Since then, the State Administration of Taxation, directly controlled by the central government, has had primary responsibility for taxation affairs. Thus, while the central share of revenue has not changed significantly in the Xi era, it remains very high and the central government has increased its role in collection and control, thus constraining the future fiscal flexibility of local governments.

Administrative semi-decentralisation

In general, the distribution of administrative powers between the central and local governments is mixed (Yu and Gao 2013). China's local governments' administrative autonomy in economic areas has been expanded in Xi's era. I illustrate this observation with two highly salient economic reform cases. According to *Notice of the State Council on Issuing the Framework Plan for China Pilot Free Trade Zone (2013–2020)*, since 2013, the national government has initiated a major trade policy reform to successively designate 21 provincial regions to build the Pilot Free Trade Zone to improve their policy autonomy in developing international trade, including Shanghai (2013), Guangdong (2015), Tianjin (2015), Fujian (2015), Liaoning (2017), Zhejiang (2017), Henan (2017), Hubei (2017), Chongqing (2017), Sichuan (2017), Shaanxi (2017), Hainan (2018), Shandong (2019), Jiangsu (2019), Guangxi (2019), Hebei (2019), Yunnan (2019), Heilongjiang (2019), Beijing (2020), Hunan (2020) and Anhui (2020). The geographic distribution of the Pilot Free Trade Zones is reported in Figure 3.3. Moreover, according to the *Budget Law of the People's Republic of China (2015)*, since 2015, the provincial governments have had the power to issue certain local government bonds to facilitate infrastructure development in exchange for increased transparency over borrowings and land financing by local governments (Xu and Yang 2015).

Moreover, the most salient administrative reforms in Xi's era are the so-called *Fangguanfu* reforms or the reforms to delegate power, streamline administration and optimise government services. In 2015, the *Fangguanfu* reforms were first publicly mentioned by Premier Li Keqiang in the annual government work report. Specifically, '*fang*' means delegating administrative powers to the lower-level governments; '*guan*' means improving regulation efficiency and effectiveness through introducing technical and management reforms; '*fu*' means reducing government interventions in markets and improving public services. In 2018, the State Council further created

a coordination group to promote the transformation of government functions and the *Fangguanfu* reforms. The main goal of the *Fangguanfu* reforms is to create a better business environment to facilitate business development and attract foreign investment. Since 2013, hundreds of government licensing powers have been delegated to the local governments, and hundreds of licensing items (e.g. business registration, food safety, production safety, market order, labour rights or environmental protection, etc.) have been streamlined to reduce the direct government interventions in the market and to improve the business environment.

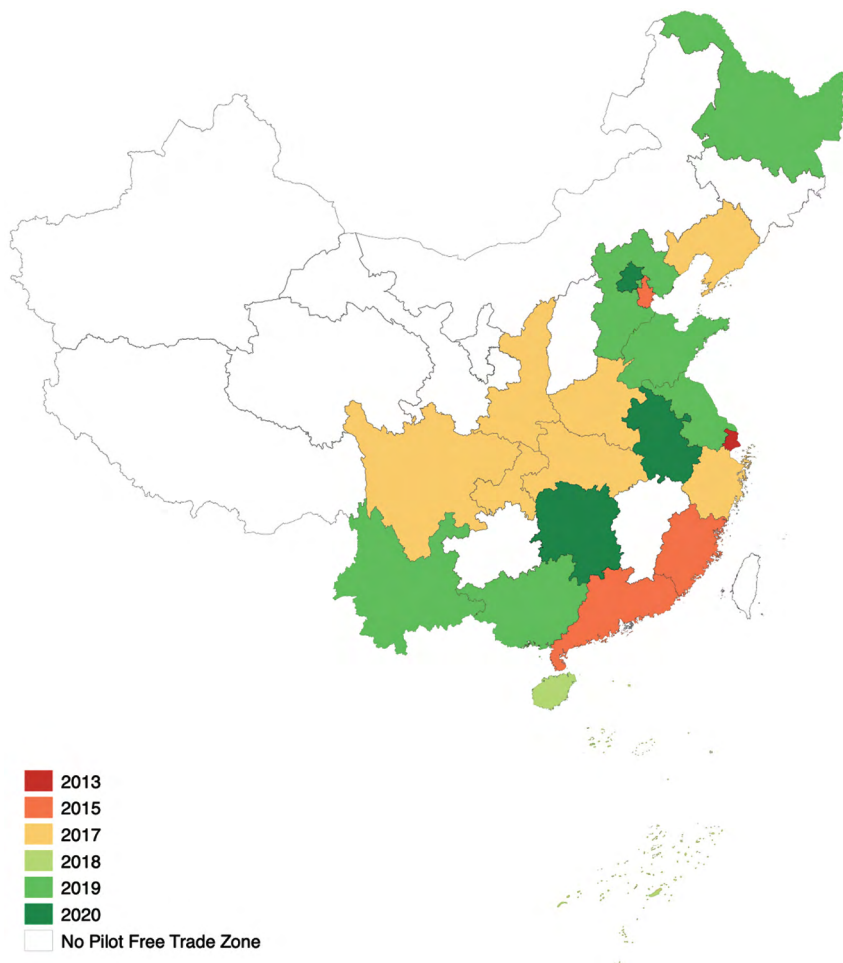


Figure 3.3: The geographic distribution of Pilot Free Trade Zones in China (2013–20).

Source: Created by the author.

Despite the delegation of administrative powers in economic areas, many administrative powers in non-economic areas have been centralised. For instance, in 2018, the central government created the Ministry of Emergency Management to directly manage (*Chuzhiguanli*) local affairs regarding emergency responses; the central government created the ecological environmental protection inspection system and increased its responsibility in cross-country, cross-region and key-area environment protection (Meng et al. 2020); the central government created the National Health Commission to integrate healthcare services and also increased its responsibility in healthcare expenditure and major public health services, such as in the prevention and control of major infectious diseases; the Ministry of Science and Technology was reorganised to support the national innovation-driven development strategy and coordinate national scientific and technological system reforms; the central government also created the Ministry of Veterans Affairs to integrate the traditionally distributed functions relevant to veterans' affairs.

The trend of national experimentation

Given the political centralisation, fiscal centralisation and administrative semi-decentralisation under Xi's leadership, how have central-led and local-led policy experiments developed in recent years? To answer this question, I first provide a general review of the experimental policies and then examine central-led and local-led policy experiments in specific policy domains. I choose 'experimental point (*Shidian*)' as the keyword for searching experimental policy documents in the PKULaw database because it refers to the 'model demonstrations and pilot projects in a specific policy domain' and is the most commonly used terminology by Chinese government practitioners when discussing policy experimentation (Heilmann 2008a).

Figure 3.4 reports the annual number of central and local policy documents on 'experimental points' from Hu's era to Xi's era (2003–2020). Overall, the total numbers of both central and local experimental policy documents have increased in Xi's era compared to Hu's era. Specifically, there were 2,054 central-level experimental policy documents from 2013 to 2020, whereas there were only 1,552 central-level experimental policy documents from 2003 to 2012; there were 11,771 local-level experimental policy documents from 2013 to 2020, whereas there were only 8,220 local-level experimental policy documents from 2003 to 2012. Nevertheless, I find

that after 2018 (the starting year of the second term of Xi), both central and local experimental policy documents have decreased. In other words, Xi's governance in his first term actually boosted central and local policy experimentation, but his governance in his second term significantly reduced local policy experiments and slightly reduced central policy experiments.

This finding might be explained by the systematic reform of the party and state institutions which Xi initiated in 2018, which greatly increased the central government's institutional control over local governments. Local governments almost always have administrative autonomy given their information advantage in a multilevel system (Anderson et al. 2019), while the central government generally has the advantages of political and fiscal resources. Therefore, local-led policy experiments might be particularly affected by the political and fiscal centralisation reforms in 2018, which greatly reduced local governments' autonomy to adopt innovative policy practices. By contrast, the central-led policy experiments might be adversely affected by administrative decentralisation reforms, generally cancelling out the positive effects of political and fiscal centralisation.

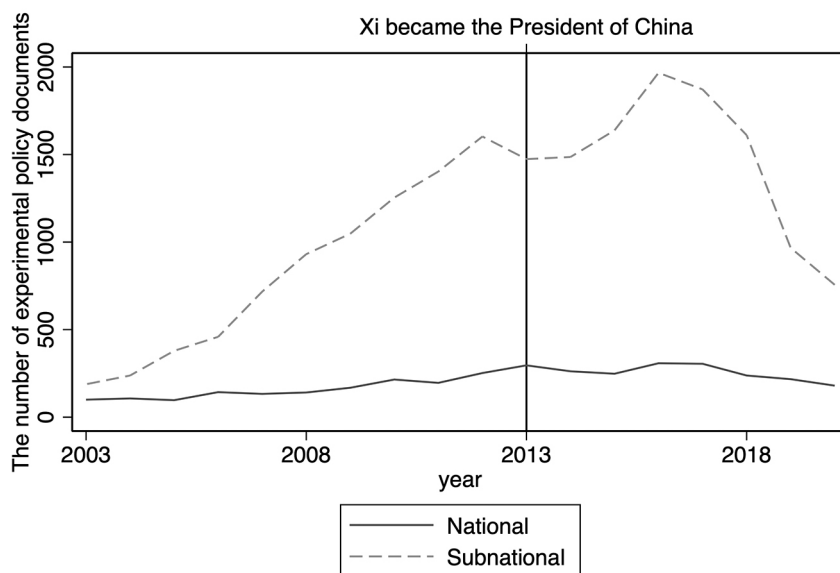


Figure 3.4: The annual number of national and subnational policy documents on 'experimental point (*Shidian*)' (2003–20).

Source: www.pkulaw.com.

The effects of the changes in the vertical power structure on policy experimentation may vary across policy domains. Because the Ministry of Education (ME), Ministry of Finance (MF), and the National Development and Reform Commission (NDRC) produced the most experimental policy documents among the subordinate organisations of the State Council, I examine the trends in policy experimentation in these three organisations (Figure 3.5) to explore the specific dynamics of central-led policy experimentation in the economic and non-economic areas. In terms of the ME, there were 92 experimental policy documents from 2013 to 2020, fewer than the 118 experimental policy documents from 2003 to 2012. The number of experimental policy documents released by the ME only slightly increased after 2013 and did not significantly change after 2018. MF released 254 experimental policy documents from 2013 to 2020, compared to only 220 experimental policy documents from 2003 to 2012. The number of experimental policy documents released by the MF increased after 2013 but significantly decreased just before and after 2018. NDRC released 190 experimental policy documents from 2013 to 2020, much more than the 92 experimental policy documents released from 2003 to 2012. The number of experimental policy documents released by the NDRC, like that of MF, increased after 2013 while significantly decreasing just before and after 2018. These trends might be explained by Xi preempting the 2018 reforms he was to pursue in his second term.

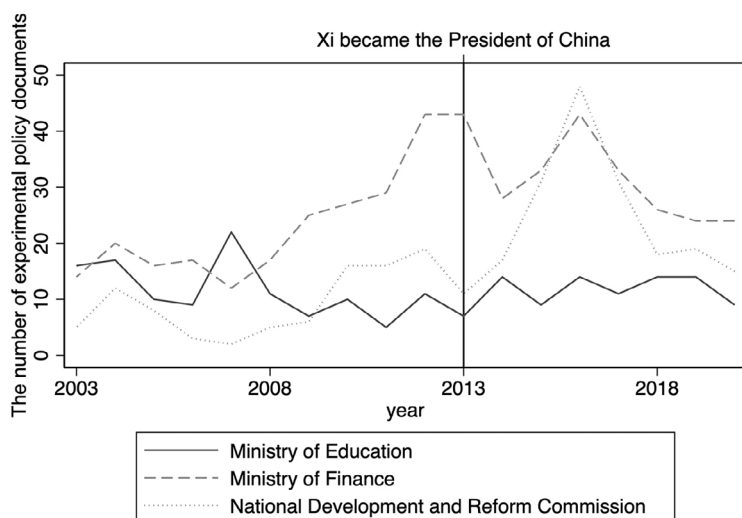


Figure 3.5: The annual number of policy documents on ‘experimental point (*Shidian*)’ promulgated by three subordinate organisations of the State Council (2003–20).

Source: www.pkulaw.com.

Generally, the number of experimental policy documents in the education area is more stable than in the finance and economic development areas. According to my previous analysis, this finding might be explained by the fact that administrative powers in the economic areas were significantly delegated to local governments and therefore the central government does not have the administrative autonomy to design and implement its own policy experiments.

The trend of local experimentation

Although Figure 3.4 shows the temporal trend of experimental policy documents released by all local governments, it does not tell us which provinces have had more policy experiments than others and why. To further show the geographical distribution of the frequency of policy experimentation, I report the total number of subnational policy documents with 'experimental point' in each province from 2013 to 2020 in Figure 3.6. As illustrated in Figure 3.6, the eastern economically developed provinces, including Zhejiang, Fujian, Guangdong, Jiangsu and Shandong, each released at least 500 experimental policy documents. Anhui is the only non-coastal province that released more than 500 experimental policy documents. By contrast, the other less developed provinces in middle China only released 300 to 500 experimental policy documents. The north-eastern, north-western and south-western provinces each released less than 300 experimental policy documents; Tibet only released 31 experimental policy documents between 2013 and 2020.

Given the geographical distribution reported in Figure 3.6, the economy size, a common indicator of the complexity and quantity of public service demands (Zhu and Zhang 2016), might be the most intuitive predictor of the experimental policy documents in each province. I collected the gross domestic product (GDP) information of each province in 2019 from the website of the National Bureau of Statistics (www.data.stats.gov.cn). Figure 3.7 shows the correlational relationship between the total number of local policy documents on 'experimental point' (2013–2020) and the GDP (2019) in each province. In general, I find that richer provinces tend to promulgate more experimental policy documents. This might be explained by previous policy diffusion research findings that economic resources encourage citizens and firms to demand better public services (Berry and Berry 1990; Zhu and Zhang 2016). Moreover, governments in economically developed regions might have more resources to invest in policy experimentation.

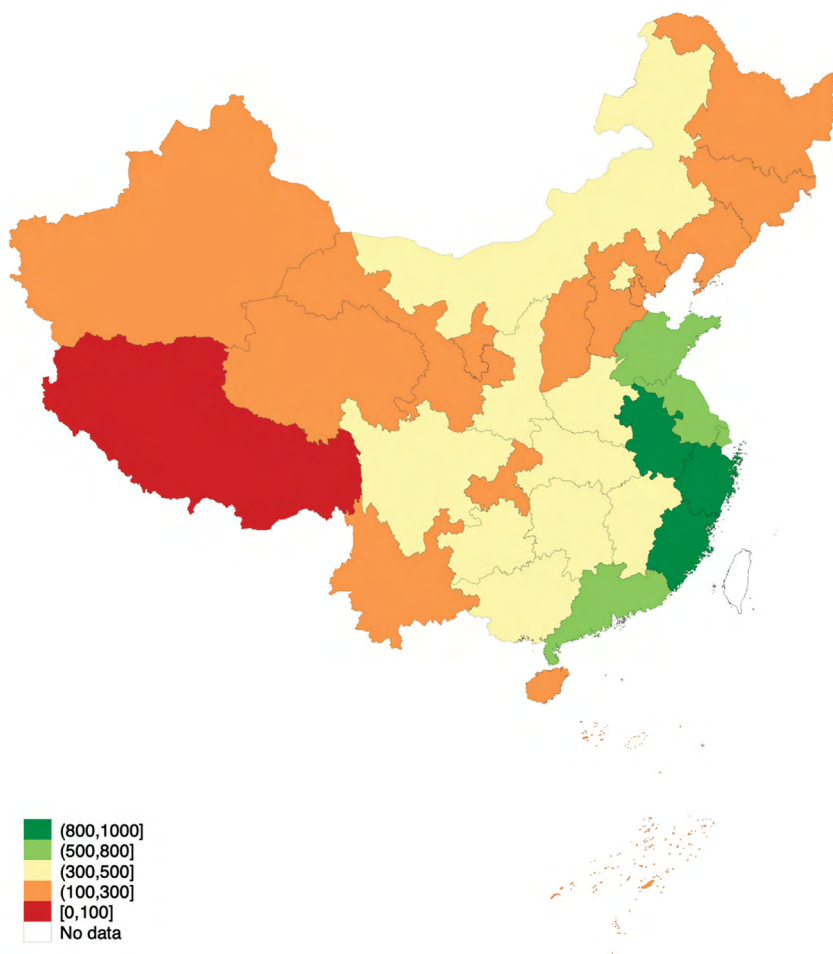


Figure 3.6: The total number of subnational policy documents on ‘experimental point (*Shidian*)’ in each province (2013–20).

Source: Created by the author.

What kinds of policy experiments have been adopted by local governments? To answer this question, I examined the winners and finalists of the IECLG Awards Program in 2015 and the CUGI Awards Program in 2018. I focused on the IECLG program because it was the most influential and widely recognised program on local government innovation in China in recent decades. The IECLG program has been held biennially for eight waves from 2001 to 2016. Since the competitors’ projects must be implemented for at least one year to qualify for review by the IECLG experts, only the 10 winners and 11 finalists selected out of more than 100 applicants in

the eighth wave (2015) could be viewed as locally initiated innovations in Xi's era. The IECLG was terminated in 2016 and replaced by CUGI in 2018. With similar review procedures, the first CUGI Award Program was held in 2018 and there were 10 winners and 12 finalists selected from more than 300 applicants. Unfortunately, the full list of applicants for the IECLG and CUGI awards is not available (my requests for the information from the organisers were not agreed to). Some caution therefore needs to be exercised in interpreting the following findings, which focus on the winners and finalists rather than on the applicants because, while all applicants involve locally initiated experiments, the winners and finalists chosen may reflect in part the central government's or the experts' policy interests rather than the local governments' actual organisational innovativeness.

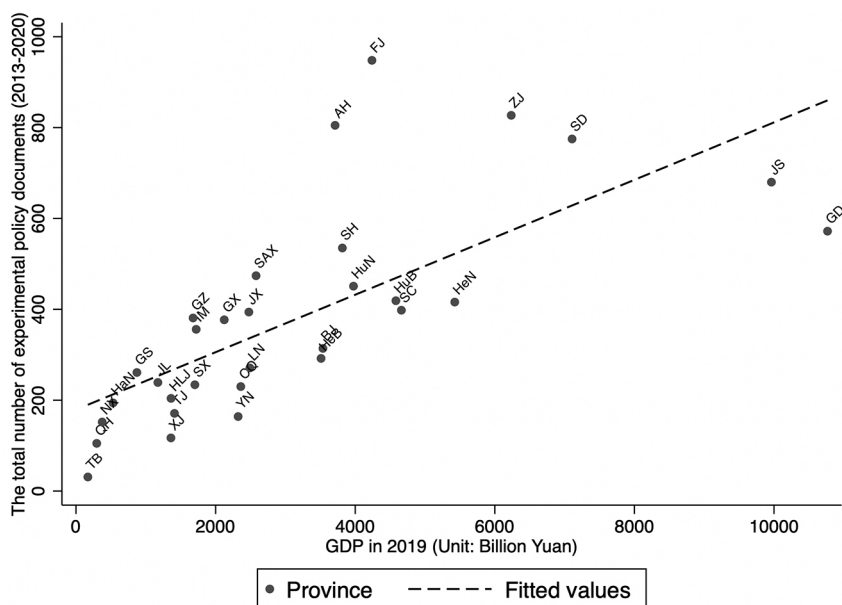


Figure 3.7: The correlational relationship between the total number of subnational policy documents on 'experimental point (*Shidian*)' (2013–20) and the GDP (2019) in each province.

Note: BJ = Beijing, TJ = Tianjin, HeB = Hebei, SX = Shanxi, IM = Inner Mongolia, LN = Liaoning, JL = Jilin, HLJ = Heilongjiang, SH = Shanghai, JS = Jiangsu, ZJ = Zhejiang, AH = Anhui, FJ = Fujian, XJ = Jiangxi, SD = Shandong, HeN = Henan, HuB = Hubei, Hun = Hunan, GD = Guangdong, GX = Guangxi, HaN = Hainan, CQ = Chongqing, SC = Sichuan, GZ = Guizhou, YN = Yunnan, TB = Tibet, SAX = Shaanxi, GS = Gansu, QH = Qinghai, NX = Ningxia, XJ = Xinjiang.

Source: Created by the author.

To facilitate the understanding of the typology of those local policy experiments, I also classified the IECLG and CUGI winners and finalists following Wu, Ma and Yang (2013), including service innovation, technological innovation, management innovation, collaborative innovation and governance innovation. Specifically, according to Wu and colleagues, service innovation refers to ‘the supply of new services to new users, the delivery of existing services to new users or the supply of new services to existing users’ (2013:350); technological innovation refers to ‘a change in service delivery technologies or arrangements’ (351); management innovation refers to ‘the restructuring of organisational structures and management processes and practices’ (351); collaborative innovation refers to ‘boundary-spanning activities in the process of service delivery and management (for example, alliances, partnerships, collaborations, and networking)’ (352); and governance innovation refers to ‘new approaches and practices that aim to manage democratic institutions, trigger citizen participation and fight corruption’ (352). Many IECLG and CUGI winners and finalists might be viewed as multiple types of innovation simultaneously. Nevertheless, I classified each IECLG or CUGI winner or finalist into only one innovation category because the purpose of my classification was only to capture the main characteristic of each IECLG or CUGI winner or finalist to show the general trend of local-led policy experimentation in Xi’s era.

Table 3.1 shows a list of the number of IECLG (2015) and CUGI (2018) winners and finalists by province and innovation type. In terms of innovation typology, I find that various types of innovations in different policy domains have been trialled by varying levels of governments in Xi’s era. Generally, governance innovation and management innovation are more common than technological innovation, service innovation or collaborative innovation. Specifically, governance innovations include grassroots deliberative democracy (e.g. Pengzhou city in Sichuan province) and a fully responsive grid-based social service system (e.g. Xicheng district in Beijing municipality). Management innovations include the experiment of ‘Multiple Plan Integration’ (e.g. Kaihua county in Zhejiang province) and the creation of an Alternative Restoration Model of Compensation for Ecological Environment Damage (e.g. Diankou town of Zhuji city in Zhejiang province). Technological innovations include the ‘Smart Urban Governance’ (e.g. Beijing municipality) and the ‘Big Data Governance’ (e.g. Qixia district of Nanjing city in Jiangsu province). Service innovations include the creation of a children-friendly city (e.g. Shenzhen city in

Guangdong province) and the reform of a grassroots healthcare service (e.g. Changting county in Fujian province). Collaborative innovations include the Shanghai–Zhejiang Cross-Border Cooperative Governance System and the invitation of social forces to participate in social governance (e.g. Ya'an city in Sichuan province).

In terms of the geographic distribution of IECLG (2015) and CUGI (2018) winners and finalists, I find that the economically developed eastern provinces tend to have more successful innovations than the less developed middle or western provinces. Specifically, the local governments of Zhejiang (11), Guangdong (6) and Shanghai (5) are the most innovative and were more than half of all IECLG (2015) and CUGI (2018) winners or finalists. Notably, Xi served as the party chief of Zhejiang and Shanghai previously, and this involvement might provide extra political legitimacy for government innovations adopted in these regions. The winners and finalists involve innovations by a range of public organisations across all levels of local government, for example a provincial-level Office of Organization and Personnel (*Bianzhi*) Committee (e.g. Zhejiang province), a city-level Human Resources and Social Insurance Bureau (e.g. Qingdao city of Shandong province), a district-level procuratorate (e.g. Dadukou district of Chongqing municipality), a county-level government (e.g. Kaihua county of Quzhou city in Zhejiang province) and a town-level government (e.g. Diankou town of Zhuji city in Zhejiang province).

By contrast, the less developed provinces, such as Xinjiang, Tibet or Yunnan have no IECLG (2015) or CUGI (2018) winners or finalists. While this may reflect their economic disadvantage, the lack of policy experiments in these regions may also be caused by the firmer political control imposed on these regions due to ethnic and border conflicts.

The differing extent of policy experimentation may be contributing to the heterogeneous government performance and governance quality across China exacerbating political, economic, and social inequity within and across jurisdictions (Wu et al. 2020). Therefore, the findings in Table 3.1 may suggest the need for government interventions to promote wider local policy experimentation across China.

Table 3-1: Number of IECLG (2015) and CUGI (2018) winners and finalists by province and innovation type.

Province	Governance innovation	Collaborative innovation	Management innovation	Technological innovation	Service innovation	Subtotal
Anhui	1	0	0	0	0	1
Beijing	1	0	0	1	0	2
Chongqing	0	0	0	0	1	1
Fujian	0	0	0	0	2	2
Gansu	0	0	1	0	0	1
Guangdong	1	0	1	1	3	6
Guangxi	0	0	0	0	0	0
Guizhou	0	0	0	0	0	0
Hainan	0	0	0	0	0	0
Hebei	0	0	0	0	0	0
Heilongjiang	0	0	0	0	0	0
Henan	0	0	0	0	0	0
Hubei	1	0	0	0	0	1
Hunan	1	0	0	0	0	1
Inner Mongolia	1	0	0	0	0	1
Jiangsu	0	0	1	2	0	3
Jiangxi	0	0	1	0	0	1
Jilin	0	0	0	0	0	0
Liaoning	0	0	1	0	0	1

3. VERTICAL POWER STRUCTURE AND POLICY EXPERIMENTATION IN XI'S CHINA

Province	Governance innovation	Collaborative innovation	Management innovation	Technological innovation	Service innovation	Subtotal
Ningxia	0	0	1	0	0	1
Qinghai	0	0	0	0	0	0
Shaanxi	0	0	0	0	0	0
Shandong	0	0	1	0	0	1
Shanghai	0	2	1	0	2	5
Shanxi	0	0	0	1	0	1
Sichuan	2	1	0	0	0	3
Tianjin	0	0	0	0	0	0
Tibet	0	0	0	0	0	0
Xinjiang	0	0	0	0	0	0
Yunnan	0	0	0	0	0	0
Zhejiang	6	0	3	2	0	11
Subtotal	14	3	11	7	8	43

Source: Author's summary, based on lists of winners and finalists from IECLG (2015) and CUGI (2018).

Conclusion

This work contributes to the existing literature by pointing out the potentially different effects of vertical power structures on policy experimentation and empirically providing descriptive evidence drawn from multiple sources to show the change of vertical power structure and policy experiments in Xi's era. Recent research suggests that China's vertical power structure has been centralised and there has been a reduction in policy experimentation (Teets and Hasmath 2020). However, this work shows that the change of vertical power structure in Xi's era is mixed, and despite an overall decline since 2017, experimentation in China remains significant, particularly but not exclusively central-led experimentation. In fact, during the recent COVID-19 pandemic, Zhejiang province was the first adopter of multiple emergency management innovations, such as using the strengths of community-based organisations in multiple stages of COVID-19 responses and creating digital tracking platforms (Cheng et al. 2020).

There are several potential directions for future research. First, our primary measure of subnational policy experimentation, the experimental policy documents released by subnational governments, could be noisy and should be further refined in future research. For instance, subnational experimental documents might also result from some central policy initiatives and cannot precisely reflect subnational policy discretion. Therefore, the validity of the empirical findings might be limited and can only provide suggestive evidence on the relationship between the vertical power structure and policy experiments.

Second, the change of vertical power structure may have stronger effects on policy experimentation in some policy domains than in others. This is because the importance of government functions tends to vary across policy issues and across time, and policymakers have to revise their priorities in policy experimentation given their resource, time and attention limits (Zhang and Zhu 2020). Third, future research could pay more attention to the potentially reversed causal direction between the vertical power structure and policy experimentation. A centralised or decentralised power structure might be achieved by policy experimentation. For instance, the replacement of the locally owned business tax with shared value-added tax (i.e. the centralisation of tax sources) was first piloted in Shanghai in 2012. In other words, the centralisation in Xi's era might be the outcome of policy experimentation. Since both centralisation and experimentation could be the

goal or tool of the policymakers, future researchers should pay more attention to the differences between centralisation (goal) through experimentation (tool) and experimentation (goal) through centralisation (tool).

Fourth, future research could further build on this work to more rigorously identify the mechanisms underlying the relationships between various types of specific power structures and policy experiments in different policy domains in China. For instance, scholars could further explore the potential effects of administrative centralisation on subnational governments' experimental choices or behaviours in the health area during the COVID-19 pandemic, given their practical relevance. Fifth, the below-provincial vertical power structure also deserves more attention in future research (Yu et al. 2016). Finally, as shown previously, more developed provinces tend to have many more innovative policy experiments than less developed ones. The great geographical divergence in policy experiments across China could be the consequence of administrative decentralisation and implies the potential polarisation of governance quality between the more and less developed regions. Therefore, central interventions should be designed to help improve the innovativeness of local governments in less developed regions.

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4

Revitalising local capacity in Taiwan: Institutional arrangements, consequences and prospects

Tsai-tsu Su and Ming-feng Kuo

Abstract

The Taiwanese Government has implemented several institutional reforms to enhance local government performance since the mid-1990s. The overall direction of the reforms is decentralisation, with the aim of increasing the autonomy of local governments. However, to date, the success of these local institutional reforms has been limited. The reasons are twofold, one being that central paternalism has not entirely faded away, the other being that many of the institutional arrangements and their operations are not entirely congruent with the principles of open government—transparency, accountability and public participation.

This chapter firstly describes the institutional arrangements of the local government system in Taiwan: the local government sector and councils, fiscal resource allocation, public personnel capabilities, and community participation and civic engagement, respectively. It then analyses how insufficient local autonomy and institutional deficiencies in open government strategies impact local governance capacities. Finally, the chapter concludes that to revitalise local capacities in Taiwan, fulfilling the core values of open government must go hand in hand with further decentralisation of local power.

Keywords: local autonomy; open government; local governance; Taiwanese government.

Introduction

Since the mid-1990s, the Taiwanese Government has carried out a series of institutional reforms to enhance local government performance, including passing local autonomy laws, strengthening local taxation rights, and raising the job ranks of local public servants. Moreover, in 2014, the central government completed a series of mergers and reorganisations of local administrative regions to increase the powers of special municipality governments (Chi 2020; Chiou 2021:120–21). The overall direction of these institutional reforms is decentralisation, with the aim of increasing the autonomy of local governments. It is believed that local autonomy enables closer links between public sector decision-making and local needs and preferences, as well as more efficient public services (Tiebout 1956; Oates 1972; Wolman and Goldsmith 1992; Keuffer 2018).

However, to date, the success of these local institutional reforms has been limited. The reasons are related to inadequate institutional arrangements for local governance. There are at least two critical shortcomings in the current institutional arrangements. First, though the institutional arrangements have given more autonomy to local governments than the previous authoritarian regime, the central paternalism has not entirely faded away: local governments' flexibility and autonomy remain insufficient. For instance, the outbreak of COVID-19¹ and the debate on opening up Taiwan to US imports of pork containing the leanness agent ractopamine² in 2020 have highlighted disputes over the intended collaborative relationship and tensions between the central and local governments in Taiwan.

1 Taiwan adopted a centralised governance model to deal with the COVID-19 pandemic (Huang 2020). However, there was a competitive relationship between the central and local governments, including tensions about how to and when to implement pandemic prevention measures and whether local governments had the authority to adopt general screening and inspection measures without a central government order.

2 The central government decided that starting in January 2021, Taiwan would open its market to import US pork that might contain ractopamine. The policy contradicts 17 local governments' food safety standards, which did not allow pork containing ractopamine. The central government declared the local regulations stipulating a zero-ractopamine policy to be invalid for violating the national constitution (www.ey.gov.tw/Page/9277F759E41CCD91/960a77e6-c6f9-40cb-8ef5-77f122ee8f4e, accessed 31 December 2020).

Second, many of these institutional arrangements and their operations are inconsistent with the principles of open government, which is critical to good governance. The concept of open government was first proposed by Wallace Parks (1957), and he suggested governments should be more open and transparent with their information for greater accountability. Parks' call for transparency gave rise to the Freedom of Information Act (FOIA) in 1967 in the United States. The FOIA started a trend in European and other North American countries as Norway, Denmark, the Netherlands, France, Canada, etc., also passed similar acts throughout the 1970s and 1980s (Mendel 2008). Australia's FOIA was enacted in 1982. As information and communications technologies advanced, US president Barack Obama signed the Memorandum on Transparency and Open Government in 2009 and launched Data.gov, making the US Government a bellwether for Open Government Data initiatives. Then, in 2011, Obama launched the Open Government Partnership with the leaders of seven other nations, which started a major global trend meant to enhance government performance and citizens' trust in their governments (Berrot et al. 2010; Grimmelikhuijsen 2012; Kim and Lee 2012; Schmidhuber et al. 2021). During Taiwan's local elections in 2014, many mayoral candidates pinned their campaign platforms on open government. Several of those elected have subsequently implemented open government strategies. Today, Taiwanese society generally accepts that local governments should adopt open government strategies to enhance the public sector's capacity and performance.

Open government strategies are based on the principles of transparency, accountability and citizens' participation (OECD 2016). Transparency implies that the government must share policy information with citizens who have the right to know. Transparency is a precondition for public scrutiny, citizen participation and accountability (Piotrowski and Bertelli 2010). The accountability principle emphasises that public employees have an obligation to accept supervision, be responsible for the consequences of their decisions and actions, and accept corresponding rewards and punishments. The principle of citizen participation allows local people to devote their skills and efforts to improving the effectiveness and quality of public services. Ideal citizen participation requires participants to have sufficient information before engaging in public affairs, and transparency helps to reduce the cost of collecting and comprehending public affairs information. Citizens become informed partners so that they can participate effectively in community affairs.

The rest of the chapter is organised as follows. The following four sections describe the institutional arrangements of the local government system in Taiwan: the local government sector and councils, fiscal resource allocation, public personnel capabilities, and community participation and civic engagement, respectively. It then analyses how insufficient local autonomy and institutional deficiencies in open government strategies impact local governance capacities. This study also explores such issues as whether the local council's oversight of its executive branch is sufficient, whether existing intergovernmental fiscal transfers promote fiscal equality, whether the local civil service arrangement offers a compelling incentive for talent retention, and the efficacy of civic engagement. The final section provides conclusions and policy suggestions to enhance local government performance.

Local governments and councils

Under Taiwan's framework of multilevel government (within its unitary system), institutional arrangements and interactions between the central and local governments inevitably affect the quality of local governance. Taiwan's local government system consists of three types of self-governing local governments, including 6 special municipalities, 16 counties/cities and 198 townships (see Figure 4.1). Special municipalities are top-level administrative entities with a population above a certain threshold and having greater political, economic and cultural significance. By design, they enjoy more power and resources in budget and personnel allocation than do counties, cities and townships. For instance, in 2020, the total budget and public employees of the six special municipalities accounted for 66 per cent of all local governments' public expenditure and 67 per cent of the entire workforce of local governments.³ With more resources at the discretion of special municipalities, in general, special municipalities outstrip counties/cities regarding performance. This has caused severe horizontal inequalities among local governments.

3 For public expenditure data, refer to 'Table 1-5: Net Government Expenditures of All Levels by Government' in the *2020 Yearbook of Public Finance Statistics* (Ministry of Finance Taiwan 2021). For public employee statistics, refer to the webpage of the Directorate-General of Personnel Administration, Executive Yuan, ROC (www.dgpa.gov.tw/information?uid=331&pid=10601).

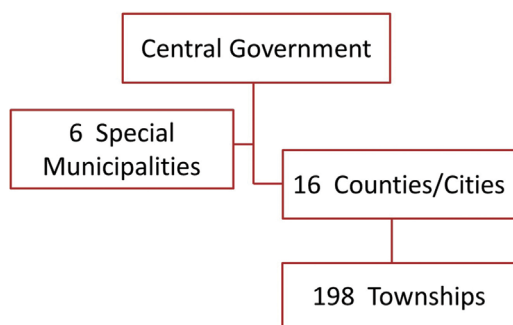


Figure 4.1: Taiwan's local governments.

Source: Author's depiction.

According to the Local Government Act, the mayor of the local administrative branch in special municipalities, counties and cities is popularly elected to a four-year term and may be re-elected to a second term. Moreover, to check and balance the local administrative branch, each local government has a council elected by local people every four years.

Local elections in Taiwan are fiercely contested, and the effect this has on the quality of local governance is still a matter of debate. A common complaint is that politicians, particularly local councillors, know only how to campaign and not how to govern. It is not unusual to observe local councillors becoming involved in election bribery, corruption, fraud, intimidation and other criminal activities (Chang, H., 2020:155), behaviour that was widely criticised in the past era of authoritarianism.⁴ Unlike the slow yet steady improvement of the quality of the Legislative Yuan, which is equivalent to the national parliament in other democracies, most local councils in Taiwan have not changed much since democratisation (Hu 2016).

Even though many professional and responsible local councillors offer good services to society, overall, most local councils perform poorly in their supervisory duties. A study reported by Hawang (2018:131) reveals instances in which local councillors' official sign-in rate was 100 per cent, enabling all councillors to receive their full attendance payments, yet the actual attendance rate was only 44 per cent. The primary duty of a local council is to oversee the local executive branch on behalf of the public. This is a critical institutional arrangement for open government, ensuring

⁴ Martial law was imposed in Taiwan from 1949 to 1987, running for 38 years. If including the Japanese colonial period (1895–1945), then Taiwan's twentieth century can be viewed as predominantly a history of authoritarianism. For more discussion, see Fell (2018).

public accountability. The fact that most local councils perform poorly in their supervisory role is closely related to the failure to implement open government strategies in local government (Chiou 2021:269).

Many local councillors have no fear of pursuing their own interests at the expense of the public interest because of this lack of transparency (Huang 2020). At present, the Legislative Yuan's meetings are open for real-time live broadcasting and public scrutiny. The Legislative Yuan also provides meeting minutes and on-demand video films for citizens after meetings. In contrast, several local councils refuse to open their meetings to the public, and their minutes are generally very brief or incomplete. According to a study conducted by the Citizen Congress Watch⁵ in 2018, out of 23 local governments visited, as many as 19 municipalities, counties, and cities failed to meet the minimum requirements of parliamentary transparency (Hawang 2018:131). In 2018, the central government revised the Organizational Guideline for Local Councils. It stipulates that, from January 2020, local councils must meet deadlines for releasing their meeting agendas and minutes on their websites and should videotape or broadcast live committee meetings on the internet. It will take some time before it can be verified whether the new guideline requirements are successfully reducing local councillors' misbehaviour and corrupt practices.

Both horizontal and vertical accountability are critical for the fulfilment of open government. While horizontal accountability involves the oversight by local councils of the administrative branch, vertical accountability includes supervision of public officials by civil society and media (O'Donnell 1998). It is well known that the mass media and civic groups made significant contributions to Taiwan's democratisation in the past (Hsiao 2004; Ting 2007). Since then, the mass media and most influential civic groups have continued to focus on policy decisions and processes of the central government. While they have also expanded their focus to special municipality governments in recent years, they have shown little interest in the public affairs of other local governments.⁶ Without an objective

5 Citizen Congress Watch (CCW), a non-profit organisation, was founded in 2007. Its mission is to enhance the performance of the Legislative Yuan. The CCW releases the national legislators' scorecard reports and organises congressional oversight forums each year to achieve the mission. CCW hopes to elicit strong public opinions to urge national legislators to serve public welfare, transparency, efficiency and integrity (see: ccw.org.tw/english/about, accessed 5 September 2021).

6 One notable exception involves the efforts of Citizen Congress Watch. Hoping to replicate its experience in overseeing the National Legislative Yuan in the past years, in 2018, Citizen Congress Watch began to ally with local civic groups and train volunteers in different localities to oversee the policymaking process in their councils (ccw.org.tw/organization/transparency/2018-3, accessed 10 September 2021).

monitoring mechanism outside the executive branch, it is possible that bureaucratic laziness, waste of resources and even corruption may easily occur.

In summary, opaqueness and insufficient attention from the media and civic groups have resulted in insufficient public accountability in the local policy process and low quality of performance by local councils in Taiwan. The poor performance of local councils has become a stumbling block to Taiwan's local governance. Experience in the Legislative Yuan of the central government has shown that transparency is a prerequisite for improved public accountability. Similarly, to enhance local councils' oversight and the quality of local governance, our hope lies in the institutional arrangements that effectively integrate transparency into the operation of councils and government institutions at the local level.

Fiscal resource allocation

There are three features of fiscal resource allocation for local governments in Taiwan: scarcity, inequality and high politicisation. Previous local reforms between the mid-1990s and 2010 were aimed at alleviating fiscal scarcity and horizontal inequality but without fiscal transparency and civic participation, the reforms have not led to improved performance.

Local governments, especially rural local governments, are unable to make ends meet, which is a long-existing problem in Taiwan (Su 2018:85–87). Most local governments have significant fiscal deficits as a ratio of their public expenditure. For example, the average local fiscal deficit as a percentage of local public expenditure during 2004–2019 was 33 per cent, and total local public debt increased by 67 per cent during the same period (Ministry of Finance Taiwan 2022). In 1999, the Legislative Yuan enacted new laws to increase the autonomy of local institutions to tax, with the aim of giving local governments powers to increase local taxes. However, Kuo and So (2013) find that most local governments prefer not to exercise their power to tax but instead prefer to seek fiscal transfers from the central government and then blame the central government for any subsequent shortfall in funding local public services. This is consistent with empirical findings globally—that local governments worldwide rely on fiscal grants from the central government, raising moral hazard problems and the risk of inefficiency (Von Hagen 2002:263–84).

In addition to financial scarcity, inequality is another characteristic of local fiscal resources. As in most nations, both horizontal and vertical fiscal inequalities exist among local governments in Taiwan. Taking the fiscal year 2021 as an example, we witness a vertical fiscal inequality between the central and local governments in the budget. The central government's estimated revenue accounts for 76.1 per cent of the country's revenue, while its expected expenditure represents only 62.4 per cent of the nation's total public expenditure. By contrast, excluding grants and subsidies from the central government, all local governments combined are expected to collect only 23.9 per cent of total public revenues but are responsible for 37.6 per cent of the nation's public expenditure (DGBAS 2021a, 2021b). However, some vertical fiscal imbalance between the central and local governments is inevitable for two reasons. First, the central government has the responsibility to address horizontal fiscal inequality, and second, given the increasing mobility of people and capital, some shift in taxing power to the central government is inevitable (Podger et al. 2013:194).

While the vertical fiscal inequality between the central and local governments is modest, the horizontal inequality among special municipalities, counties and cities has caused significant concern in Taiwan. Though most local governments are overloaded with heavy debts, rural local governments generally face greater fiscal stress than urban local governments. This is because property taxes are the main source of local revenues, and rural real estate prices are lower than those of urban regions. Consequently, non-special-municipality governments, primarily located in rural areas, collect much less tax than special municipality governments. For instance, in fiscal year 2019, the six special municipality governments collected a total of NTD491 billion local tax revenues, while the remaining local governments received NTD141 billion (National Audit Office Taiwan 2022). It is equivalent to a local tax payment of NTD30,000 per resident in the special municipalities and NTD19,500 per resident in the non-special municipality regions.⁷

Theoretically, a well-designed intergovernmental fiscal transfer can address horizontal inequality by providing more financial resources to governments with more significant financial difficulties. However, the highly politicised nature of the fiscal allocation process in Taiwan undermines the effectiveness and fairness of intergovernmental transfers. Empirical studies indicate

7 At the end of 2019, the population for the six special municipalities was 16,382,139, and 7,220,982 for the non-special-municipality region (see: www.ris.gov.tw/app/portal/346).

that a local mayor's political affiliation and whether it is an election year significantly affects the amount of grants and subsidies given to local governments (Luor and Wahn 1999; Luor 2000, 2008; Wang et al. 2012).

The irrational and chaotic political party confrontation in Taiwan not only negatively affects the effectiveness of intergovernmental transfers, but also adversely affects local budgetary decision-making. Taiwan's political parties are very competitive. To win elections, politicians try to do their best to please voters. Existing research (e.g. Fang 2014; Su 2018) finds that local governments already heavily in debt continue spending inefficiently on infrastructure projects that please ill-informed voters, and local mayors and local councils tend to approve public procurements that favour local factions in bidding processes. When local governments overspend and have insufficient money to pay contractors or public employees, instead of raising taxes or cutting back other expenditures, they resort to borrowing more money or asking the central government for funding.

Sixty years ago, Wildavsky (1961) pointed out the highly political nature of the budgetary process. Budgetary decision-making is never neutral or 'rational', but information asymmetry worsens its irrationality. In an open government model, local governments would be held accountable for lacking the fiscal discipline to safeguard taxpayer dollars. Nevertheless, the lack of access to easy-to-understand fiscal information contributes to fiscal illusion among voters. As a result, few voters understand the annual budgetary process or its impact on local debt and the consequences of that debt. Therefore, in the absence of fiscal transparency, it is impossible to ensure fiscal accountability through the ballot box in the local political arena.

Since local voters failed to fulfil vertical accountability regarding local borrowing and fiscal behaviour, the central government must play its supervisory role actively. As early as 1996, the central government passed the Public Debt Act, which stipulated the ceilings of the public debt of local governments. It also stipulates that if the local government violates the debt ceiling and fails to correct it within a certain period, then the central government will reduce or suspend the centrally funded tax revenues to the local government. Moreover, the mayor of the violating government will be sent to the disciplinary court for punishment. While violations of debt ceilings by local governments have not been unusual since the passage of the Act, only one mayor received a minor punishment after his term expired in 2016 (Lin et al. 2016).

In addition to the Public Debt Act, the central government has relied on a 'one-whip' system to directly supervise local fiscal behaviours by appointing the heads and personnel of the local budget offices. The following section will explain further the concept of the one-whip system.

Capacity of local public personnel

Sufficient financial resources and high-quality personnel are essential for good local government performance. As mentioned in Section III, Taiwan's local governments suffer from a scarcity of budget resources, which has impeded the overall enhancement of local government quality. The capacity of local government's public employees is also weak (Shih 2013). The civil service system for local governments has often been criticised for being too rigid and inflexible (Su 2010:610; So 2019), preventing the ability to respond efficiently and effectively to the increasing pace of change driven in part by global forces such as technology.

The rigidity of the local government personnel system has its roots in the longstanding control of the central government. As required by the constitution, all civil servants in Taiwan are centrally selected by the Ministry of Examination and then assigned to government agencies and local governments. The central government controls both the total number and job grades of all civil servants. In addition, the central government continues to implement a unique 'one-whip system', a legacy from the authoritarian era. Under this system, the central government exercises top-down control by appointing agency chiefs and civil servants in charge of budgetary, personnel, ethical and police affairs in local governments. This practice deprives local mayors of significant personal power. Hence, sometimes a more aggressive mayor—usually from a special municipality—is unwilling to accept the chief appointed by the central government. In these circumstances, the two parties must negotiate to resolve the deadlock. This scenario occurred in 2017 with the appointment of the police chief of Taipei City (Zeng 2017) and again in 2020 with the appointment of the chief of ethical affairs in Taichung City (Tsai 2020). Neither mayor of these two special municipality governments approved the new chiefs assigned by the central government, resulting in a deadlock. By design, the chiefs of one-whip agencies are under the command and supervision of the central authority and at the same time are responsible to the local mayor.

Thus, agency chiefs sometimes face the dilemma of a conflict of roles in a situation of dual subordination, which may affect the effectiveness and quality of the local services they manage.

Although some scholars urge abolition of the one-whip system to give local mayors more personal power, others think this would be too hasty and risky (Lu 2009). They point out that, due to the lack of transparency and insufficient oversight from civil society, giving greater personal power to local mayors may result in greater nepotism and inefficiency.

Besides controlling the staff working in one-whip agencies, the central government also stipulates the proportion of local agency chiefs who must hold civil servant qualifications and hence be subject to the apolitical merit-based system overseen by the Ministry of Examination. The regulations are less stringent for special municipality governments than for non-special-municipality governments. For example, except in respect of the four chiefs of one-whip agencies mentioned above (i.e. budgetary, personnel, ethical and police affairs), mayors of the six special municipalities have full power to appoint municipal agency heads, such as for the agencies of economic development, environmental protection, education and social welfare. Thus, recruitment of the heads of non-one-whip agencies is not confined to those with civil service qualifications. By contrast, mayors of counties and cities have less autonomy over personnel appointments. Only half of the agency heads in non-special-municipality governments may be political appointees, and the remaining half must be selected from the pool of civil servants, thereby limiting the scope of talent selection. In other words, the horizontal inequality of the fiscal allocation system also characterises the local public personnel system. Special municipality governments, which attract relatively more public attention and oversight of their personnel management, are given more autonomy than non-special-municipality governments.

Since the central government controls the total number of local civil servants, many local governments resort to recruiting contract staff outside the civil service system to cope with increasing demand from local people. Many of these contract employees start off as temporary or supplementary staff but end up staying in the local government for a long time and share similar tasks and responsibilities to those of civil servants, who are centrally selected by the Ministry of Examination. This practice provides local governments with more hiring flexibility, and many contract employees form a stable workforce on the front line of local agencies (So 2010). Nevertheless,

it also provides ample room for nepotism due to a lack of transparency and supervision in the hiring process. Consequently, local agencies have been criticised for being full of so-called 'temporary' personnel recruited without rigorous merit review procedures. It has undermined the fairness and merit principle of the civil service system, and it partially explains the observation by Shih (2013) that poor allocation of human resources and poor quality of the public service workforce in localities are not unusual.

Apart from the indiscriminate appointment of cronies as temporary staff by some local governments, the poorer quality of local public servants is related to the lower grade of local civil servants. Under the central government's control, there are only a few senior-ranking public official positions in local governments, except for special municipalities. As a result, it is not easy to attract and retain outstanding talent in non-special-municipality governments. For example, in Pingtung county, 79 civil servants left departments in the county government between 2017 and 2019; among them, 71 found a higher-grade position either in the central or the special municipality governments (Weng 2018). This is just one of many cases showing that inequality in job grades has generated a talent outflow and widened the performance gap between special municipalities and non-special-municipality governments in Taiwan. Moreover, the less-than-ideal quality of public servants in non-special-municipality governments has become a thorny issue, contributing to poor local government performance in Taiwan.

Community participation and civic engagement

Along with transparency and accountability, citizen participation is a core pillar of open government, and accountability may not be achieved without citizens' participation in the governance process. For example, international evidence has indicated that citizen participation improves transparency and accountability in the management of natural resources, and it also improves access, responsiveness and sustainability in delivering education and public health services in various countries (Bhargava 2015).

In Taiwan, local governments began to commit more resources to encourage public participation when the central government promoted the concept of comprehensive community building and carried out a series

of related community projects in the 1990s (Lu 2002; Lin 2015). The concept of comprehensive community building emphasises ideas such as public participation, community awareness, community autonomy and sustainability. The projects encourage residents to voice concerns about the development of the communities in which they live, and to choose and create the environments and lifestyles they prefer. The literature (e.g. Fung and Wright 2003; Sandel 2009) suggests that comprehensive community building not only cultivates and consolidates community awareness, by involving community residents in the policymaking and implementation process, but also increases the legitimacy of the local government's policy actions.

The comprehensive community-building projects were followed by similar community-building projects, including rural rejuvenation projects around the early 2010s (Weiqi 2012), and the Regional Revitalization policy in 2018 (National Development Council Taiwan 2018). They were mostly financially supported by the central government and were carried out jointly by local governments and community civic groups. While the titles, content and scope of projects may differ, they all aim to involve local people to improve communities.

Overall, these community participation projects have had mixed achievements; the progress of citizen participation in most communities has not been impressive. Wang (2005) argues that community people were over-reliant on the government and experts in the community-building process, often resulting in poor communication, which affected the effectiveness of projects. Ruo-shui Chang (2020) observed that many key local political actors were absent from the community-building process due to a lack of incentives. One more possible reason for the unenthusiastic participation is that these community-building projects often become political tools for securing votes in elections, thus limiting genuine participation. This is consistent with the empirical research (Wang et al. 2018) that electoral and political interests are important factors in deciding whether the central government provides subsidies and who obtains the funding for community building. As a result, local political factions monopolise the resources and process of community building, which is a stumbling block for more people to participate in community affairs.

The Sunflower Student Movement⁸ took place on 18 March 2014. It was associated with a protest driven by a coalition of students and civic groups, who strongly resisted the passing of a free trade deal with China. The protesters unexpectedly occupied the Legislative Yuan, and the protest evolved into a 24-day confrontation. The movement has had positive and negative impacts on democracy and local governance in Taiwan.⁹ One of the positive impacts is greater youth participation. Specifically, the movement not only won widespread support from the young generation, but also had a great impact on civic participation, particularly in urban regions.

After the protests, many Sunflower Student Movement activists continued to work with advocacy groups, non-profit organisations, and social enterprises to improve society (Ho 2019). They strongly advocated the philosophy of transparency, accountability and public participation, and endorsed mayoral candidates who pledged to adopt open government strategies in the 2014 local government elections. The Sunflower Student Movement activists aroused many people's interest and passion for participation in public affairs (Lee 2020:254). As a result, citizen participation and civic engagement regained popularity and momentum, particularly among young generations.

Pressured by the popular sentiments triggered by the Sunflower Student Movement, many Taiwanese local governments acted quickly to promote public participation and civic engagement. They have adopted various channels for citizen participation, from traditional channels, such as public hearings, advisory committees, the World Café and citizen meetings, to new platforms, including online policy platforms, online voting and participatory budgeting.

While the public participation channels and measures employed are similar, the level of enthusiasm and resources varies significantly among local governments. Many factors affect the level of citizen participation. Among them, the maturity of civil society and the capabilities of public servants have the most significant impact on citizen participation in localities. For instance, the Taipei City Government took the lead in citizen participation

8 The Sunflower Student Movement was named after an anonymous floral gift sent to protesters as a symbol of hope.

9 The Sunflower Student Movement has had positive and negative impacts on democracy in Taiwan. Positive impacts include greater youth participation in public affairs and an opportunity to advocate participatory budgeting (Su 2017; Kuo 2019). On the other hand, the literature also points out that the extreme passion of Taiwanese young people may lead them to push aside all logical reasoning, and the echo effect has resulted in political polarisation (Lee 2014; Chen 2016).

and civic engagement. As the capital and the first special municipality in the nation, Taipei City enjoys the strengths of a mature civil society and more capable public employees. Moreover, with the active support of the mayor (Su 2017), the Taipei City Government has devoted more resources to civic engagement than any other local government.

The Taipei City Government is the first local government to actively promote participatory budgeting (Su 2018:89). From the beginning, participatory budgeting was branded to achieve the goal of open government in Taiwan (Kuo et al. 2020: 136). Its objective is to encourage more residents to participate in community affairs through collaboration and the incorporation of diverse ideas, eventually turning passive residents into proactive citizens.

However, despite renewed momentum and politicians' support, evidence is emerging that non-traditional citizen participation platforms, such as participatory budgeting, are still occupied by vested interests and political elites in many communities (Wan 2018). Thus, expanding participation has proved challenging. Sun (2020:168) has criticised the participatory budgeting implemented by the Taoyuan City Government for paying too much attention to procedural formalities and quantitative performance indicators. By contrast, meaningful deliberation with and among participants has been lacking. Furthermore, although local bureaucrats believe that participatory budgeting is valuable in enhancing public awareness, they lack expertise and incentives to assist local participants and foster civil society. They prefer to contract out the implementation of participatory budgeting projects to teams led by scholars or non-profit organisations. This is by no means a unique situation in Taoyuan City. An analysis of the literature reporting other cases suggests that participatory budgeting and citizen participation increase the bureaucratic burden, and most bureaucrats are not ready for it (Su 2017; Wan 2018).

From the early stages of community-building projects to public participation activities after the Sunflower Student Movement, local governments have faced obstacles that are not easy to overcome, including weakness of civil society and vested interests of local and political factions. Hence, according to the widely referenced model of the Ladder of Citizen Participation (Arnstein 1969), we believe that the current citizen participation in Taiwan has reached at most the level of consultation, placation and partnership. There is still a long way to go to reach the upper levels of delegated power and citizen control.

Discussion and conclusion

Taiwan's local governance has evolved from centralisation to decentralisation of local power. However, the decentralisation process has been slow. The central government continues to intervene and assist local development with a paternalistic mentality. There is a high degree of central dominance in the local government's organisational framework, fiscal allocation, personnel system and governance capacity. Consequently, improvement in local governance has been limited.

In addition to the trend of slow decentralisation, Taiwanese local governments have been looking to adopt more open government strategies in recent years. Open government is still at an early stage and has not achieved many of its intended outcomes. There are widely shared barriers and challenges in the implementation of open government, including local councils' lack of professionalism and transparency, the rigid mindset and insufficient capacity among local bureaucrats to work with civic groups, and a low degree of public participation in communities.

While all local governments face constraints resulting from the central government's paternalistic mentality, and share similar challenges of implementing open government, the constraints, challenges and resulting consequences for local governments are not the same. There is a significant gap between special municipality and non-special-municipality governments. Non-special-municipality governments have less autonomy over fiscal resources and public personnel management, and their government transparency, public accountability and public participation are more fragile. Meanwhile, special municipality governments enjoy more resources and political power; they also have a higher level of civic engagement and media attention. Their improvement in performance over time is more visible than that of non-special-municipality governments.

To correct the weaknesses of local capacity and to revitalise it, local mayors have urged the central government to loosen controls and make institutions more flexible (Zhao 2020). However, even under the central government's current strict controls (e.g. setting the upper limit of the number of civil servants), some local governments exercise their limited autonomy inappropriately, such as by breaking the merit principle and appointing cronies to different agencies. Under these circumstances, if the central government loosens the restrictions on public personnel management as urged, one necessary measure is greater transparency and accountability in

the recruiting process to reduce political patronage. At the same time, the media, civic groups and citizens need to be encouraged and motivated to turn their attention to the operations of local governments.

Local mayors also want the central government to loosen control over fiscal resources and provide more resources through intergovernmental fiscal transfers (Young 2020; Chang 2021). But local governments have already been accused of acting irresponsibly concerning budget allocation and execution (Lin and Tsai 2003; Su 2018). Therefore, there are reservations about providing more financial autonomy to local governments. In addition, the central government itself faces financial difficulties and is reluctant to share more fiscal resources with local governments. Under such circumstances, before the central government grants more autonomy to local governments, local governments need to formulate better budget policies and be subject to greater fiscal transparency and more vital external supervision, including the central government, media and civil society.

Regarding the significant horizontal fiscal inequality, a reform proposal has been suggested by the Executive Yuan, as well as scholars, since 2002 (Liao and Wu 2002; Hsu 2007; Zhuang 2020). Instead of using different distribution formulas of the centrally funded tax revenues for the special municipality and non-special-municipality governments, the reform proposal suggests that the central government apply the same distribution formula to both sets of local government. By doing so, horizontal fiscal equality could be elevated. However, many political leaders prefer a more comprehensive reform proposal (Economic Daily News 2021). It urges the central government to either abolish the special municipalities altogether or upgrade all non-special municipalities to special ones, thereby reducing one layer of local governments and creating a unified administrative division. The comprehensive reform proposal has just begun to receive attention from the public recently. Even if it can gain the support of the majority of the people and Legislative Yuan, it will take years before it takes effect.

Open government is not a panacea for all the problems identified in Taiwan's local governments. Nevertheless, we believe that to benefit fully from further decentralisation, the fulfilment of the core values of open government must go hand in hand with decentralisation. Only when decentralisation is accompanied by reforms that increase transparency, accountability and public participation can the performance of local governments be improved (Kahkonen and Lanyi 2001). However, unfortunately, the central government has been reluctant to devolve more power to the localities.

Thus, pressures through implementing open government strategies and a more significant role for civil society may be the best way to convince the central government to delegate gradually more power to localities.

Transparency, accountability and public participation make up a double-edged sword for local mayors, local councillors and local bureaucrats. On the one hand, they enhance citizen power, which is beneficial to those within local government when mobilised to support local government policies and force the central government to partner equally with local governments. On the other hand, citizen power can become an effective and robust force to oversee the operation of the local executive branch and council, so that they can no longer make policy decisions without proper public supervision.

In conclusion, to rebuild the capacity of local governments, the central government should gradually devolve power to local government. More importantly, the local government must integrate the core principles of open government into the redesign of institutions. The goals are to encourage citizens to practice citizenship, assist local people to engage constructively despite political differences, and effectively participate in community affairs. Meanwhile, as the backbone of local government, local officials need to understand that implementing open government principles requires new skills and attitudes from public servants. They need to get used to the further oversight that transparency brings, along with accountability, and the time cost of communicating and interacting with citizens and civic groups in the governance process. Therefore, human resources management in local governments need to be upgraded to ensure that public servants are well equipped to incorporate such skills into their daily activities.

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5

The revival of Australian federalism? Trends and developments in Commonwealth–state relations

Alan Fenna

Abstract

This chapter reviews developments in Australian federalism since the start of the new millennium, situating them in the context of longer-term trends and tendencies. After rehearsing the chief characteristics of the Australian federal system, it considers the way different issues have shaped the continuing evolution of that system in recent years. Two of those issues—climate change politics and the COVID-19 pandemic—stand out for the way they seem to have given Australian federalism a new lease on life when centralising forces have otherwise prevailed. The chapter examines the way those challenges have brought the states to the fore and ventures some evaluation of their significance.

Keywords: federalism; fiscal federalism; intergovernmental relations; pandemic; climate change.

Introduction

The COVID-19 pandemic provided convincing demonstration that there is not just life, but real vigour, left in Australian federalism. Long-term trends as well as developments over the opening decades of the federation's second century suggested otherwise. Persistent centralisation had in many ways reduced the states to subordinate partners, leading one scholar to ask 'why Australia remains federal at all' (Saunders 2013:399) and another to describe Australia as a 'degenerated federal state' (Wanna 2021:147). This chapter considers the state of Australian federalism by reviewing the shifting character of Commonwealth–state relations over the past two decades, relations that have exhibited a seemingly chaotic, but ultimately telling, range of competing tendencies. Centralisation has continued, but climate change politics and the pandemic have brought the states to the fore. Does this represent a new direction, a short-term deviation or a simply an often-overlooked reality?

Fluctuating fortunes

The fluctuating fortunes of the states can often be sheeted home to the states themselves: reflecting their level of political development, and their degree of policy capacity and initiative at any given time. Central governments, for instance, have assumed a more active role in federal systems when inertia or policy failure prevails among the constituent units (Parkin 2003:104–05; see also Teaford 2002). The obverse may also be true, as discussed below. Here, the focus is on the impact of exogenous and often entirely adventitious factors—the way issues of the day and their associated ideological tensions give federalism its protean quality.

As has been frequently observed, federalism has a mixture of virtues and vices (e.g. Hueglin and Fenna 2015:41–46). Chief among its putative virtues is the tailoring of policy to local conditions, needs and preferences; the ability to provide alternative venues for policy initiation; and the potential for policy experimentation and interjurisdictional learning. At the same time, federalism can foster detrimental externalities and inhibit economies of scale; protect local injustices; impose inefficiencies; and create overlap and duplication. This inherently amphibolous character means that the federal balance shifts depending on the challenges being faced; some play to federalism's strengths, some to its weaknesses. The system is eroded when the dominant issues demand a uniform response; it is strengthened when they lend themselves to

local solutions. For much of the past century, it was the former that prevailed. To contextualise the way these tendencies have played out, the following section outlines the defining characteristics of the Australian system.

The Australian federal system

The essentials of Australian federalism can be summarised in 10 points: voluntary union; dualist design; decentralised conception; limited safeguards; centralising evolution; the absence of an underlying federal society; a high degree of fiscal equalisation; partisan complexion; a network of intergovernmental relations with a low degree of institutionalisation; and continuing importance of the states.

1. Voluntary union

Australia is a prime example of an aggregative federation, where democratically self-governing political communities (the settler colonies) agreed to unite under a constitution they had designed through a series of constitutional conventions in the 1890s and endorsed in referendums. In doing so, they were motivated by an emerging national sentiment and a desire to resolve trade issues (La Nauze 1972; Hudson and Sharp 1988; McMinn 1994; Hirst 2000). Although passed as an Act of the British parliament, the resulting Constitution was entirely Australian in origin, and, thanks in particular to the section 128 amendment clause, from its very inception Australian in operation and control. This was not the case, by contrast, for the Canadian federation.¹

2. Dualist design

The system the framers opted for was an American-style ‘dualist’ one, where the two orders of government are assigned full responsibility for policymaking, implementation and administration in their respective spheres and expected to function autonomously—or in what KC Wheare (1963:2) described as a ‘distinct and co-ordinate’ fashion. Conceived as ‘independent entities’, there was thus only the most minimal provision made in the Constitution for cooperation between the Commonwealth and

¹ Where the absence of an amending procedure left the *British North America Act 1867* in the hands of the UK parliament. This was only rectified with the ‘patriation’ of the Constitution by the Canadian federal government in 1982.

the states (Zines 1986:81). The fact that a number of the Commonwealth's powers were not made exclusive meant a degree of concurrency in certain areas, but only in those areas. Such dualism was the norm, and contrasts with the functional division of powers characteristic of Germany's administrative federalism (Hueglin and Fenna 2015:135–65). That distinction remains evident, though rather eroded, today (Mueller and Fenna 2022).

3. Decentralised conception

The Commonwealth was assigned, in section 51, a limited list of powers concerned in the main with the internal union and external relations. It was a decentralised vision, with s. 107 assuring the states a broad residual power and hence exclusive jurisdiction over most domestic responsibilities (Zines 1986; Aroney 2009). These were extensive, and included criminal and civil law; policing; emergency management; local government; land management and environmental protection; health, education and welfare; infrastructure; business regulation and industrial relations within their respective boundaries. To finance these not-insubstantial responsibilities, the states were granted a plenary power to tax with the sole exception of 'duties of customs and of excise' (s. 90), seen as incompatible with interstate free trade.

4. Limited safeguards

While the Constitution included certain provisions to preserve the original terms of union, these were by no means robust. As laid down in section 128, formal constitutional change requires approval not just of voters, but of voters in a majority of states; however, it grants the Commonwealth exclusive power to initiate proposals. Meanwhile, constitutional interpretation and thus adaptation rest with the High Court as judicial umpire, but the executive branch of the Commonwealth was assigned exclusive power over High Court appointments. Moreover, the Constitution included no requirement that its clauses be interpreted in a fashion consistent with federalism. Finally, bicameralism ostensibly provided for a federal upper house, the Senate, but given its elective nature this was never going to be a house of the states. In the admittedly rather jaundiced view of one commentator, 'the almost total failure of the key mechanisms inserted by the founding fathers into the Constitution for protecting the States' has contributed enormously to the pronounced centralisation that has characterised much of Australian federalism's history (Craven 1992:50).

5. Centralising evolution

Centralisation has been the normal fate of pre-twentieth century federations subject to the pressures of great economic and social changes in the shift to modern industrial society (Dardanelli et al. 2019). Australia has exemplified this process, with the Commonwealth having greatly expanded its role in the federal system over the past century (Fenna 2019a). The section 128 safeguard ensured that this was not through formal constitutional change, and only two amendments, one in 1946 and one in 1967, have made a significant alteration to the division of powers.² Key to the process has been constitutional interpretation rather than alteration, a process launched by the High Court's decision in the *Engineers* case of 1920 opening the door to broad interpretation of the Commonwealth's enumerated powers (Booker and Glass 2003; Fenna 2012; Aroney 2017). Turning points included the 1926 judgement that section 96 gives the Commonwealth carte blanche to impose 'such terms and conditions' on grants to the states as it 'thinks fit'; the commandeering of the personal and corporate income tax in 1942; and the dramatic expansion in the scope of the external affairs power in the 1980s (Fenna 2019a).³

Since taking over the personal and corporate income taxes from the states in 1942, the Commonwealth has enjoyed a stranglehold over the main revenue sources. A high degree of vertical fiscal imbalance (VFI) has thus prevailed, with the states carrying service provision responsibilities far in excess of their own-source revenues, and the Commonwealth enjoying revenue far in excess of its spending needs. This has provided the basis for extensive use of the spending power to impose policies and programs in areas of state jurisdiction through conditional or 'tied' grants (Fenna 2008). Periodic initiatives to address VFI have produced little result (Fenna 2017). The turning point in the use of the spending power was the early 1970s, when the ambitiously reformist Whitlam Labor Government utilised tied grants as the cornerstone of 'the most vigorous strategy of intervention into areas of state jurisdiction ever attempted' (Parkin 2003:106). Since then, transfers to the states have tended to be split reasonably equally between specific- and general-purpose grants. The latter were put on a stronger footing when the Commonwealth agreed in 1999 to direct the total net

2 The Social Services amendment, section 51 (xxiiiA); and deletion of the clause exempting 'people of the aboriginal race' from the race power, section 51 (xxvi).

3 See the High Court decisions in *The State of Victoria and Others v The Commonwealth* (1926) 38 CLR 399, *South Australia v The Commonwealth* (1942) 65 CLR 373, and *The Commonwealth of Australia v Tasmania* (1983) 158 CLR 1, respectively.

revenues of the Goods and Services Tax (GST) it was legislating to the states in lieu of the annual financial assistance grants—although that did not in any fundamental way address the imbalance.⁴

In general, decades of centralisation have substantially eroded the original coordinate scheme, engendering a de facto but extensive and rather lopsided concurrency as well as a certain degree of administrative federalism with policy being made centrally and service provision executed by the states.⁵ Contrary to some characterisations (e.g. Saunders 2013), though, this does not mean Australia functions as an ‘integrated’ federation since there is no co-determination of those centrally made decisions (see Fenna 2020).

6. Federalism without a federal society

Canada, Belgium, India, Nigeria, Spain—these are all countries where federalism is an essential mechanism for enabling regionally diverse peoples to live under one roof. Australia not only lacks a ‘federal society’ to underpin its federal system, but, along with Germany (Bendel and Sturm 2010), is the least regionally diverse of any federation; it is ‘territorially or spatially homogeneous’ (Aroney et al. 2012:273). This helps explain the extent of centralisation and the widespread ambivalence towards federalism (Tiernan 2015; Fenna 2019a). It was this homogeneity that led US federalism scholar William Riker (1964:113) to ask ‘why they bother with federalism in Australia’ at all.

7. Sharing the wealth

That territorial homogeneity also helps explain why Australia has a comprehensive system of horizontal fiscal equalisation, ensuring that all jurisdictions have similar fiscal capacity and can offer a roughly equal standard of public service across the country. This has been in operation since 1981, but with the introduction of the GST in 2000, has been affected by adjustments to the shares of the GST revenue distributed to each jurisdiction according to the calculations of the Commonwealth Grants Commission.⁶

4 As formalised in the *Intergovernmental Agreement on the Reform of Commonwealth–State Financial Relations* and legislated in *A New Tax System (Commonwealth–State Financial Arrangements) Act 1999*.

5 Though not as much as is sometimes mooted—as for instance by the Coalition in their proposal for ‘outsourcing’ to the states; see Tingle (2012).

6 In Schedule 2, sections 7 and 8, the 1999 *New Tax System* legislation not only specifies that the states are to receive the GST revenues, but they are to do so ‘in accordance with horizontal fiscal equalisation (HFE) principles’.

Although this system had always attracted some criticism (e.g. Garnaut and FitzGerald 2002), it only became a vexed issue with the mining boom that transformed Western Australia from being a modest beneficiary to being a proportionally massive donor. This prompted the commissioning of two successive inquiries in the period covered here and, eventually, concessions on the part of the Commonwealth watering down the degree of equalisation such that Western Australia could keep a substantial share of its windfall resources gains (Fenna 2011; GSTDR 2012; Frydenberg 2018; PC 2018; CGC 2021).⁷ The perversity of those concessions to Western Australia became evident in 2020–21 when, as other states were battling with the severe budgetary effects of the pandemic, Western Australia recorded the largest budget surplus in its history and the second largest in the history of any state, then repeated this in 2021–22.⁸

8. Partisan complexions

For much of the country's history, Australian federalism has had a strongly partisan aspect, with, on the left, the Labor Party bridling at the constraints divided jurisdiction imposed on central government policymaking and, on the right, the Coalition parties (and typically business) favouring federalism for precisely that reason. The combination of declining obstacles to central government action and declining enthusiasm for statism led to the Labor Party's 'reconciliation with federalism' (Galligan and Mardiste 1992; cf. Parkin and Marshall 1994) and thereby helped bring to an end the long-running 'love affair' between the conservative parties and 'federal constitutionalism' (Craven 2006). Liberal Party leader John Howard (2007a) coined the term 'aspirational nationalism' to justify his government's reconciliation with centralism, while subsequent Liberal leader and prime minister Tony Abbott (2004:185) was quick to criticise the states for being engaged in what he termed 'feral federalism' (Parkin and Anderson 2007; Twomey 2007; Hollander 2008).

Those tendencies have been reinforced by the growing impatience with regulatory variation between the states in business circles, which has help propel the country away from economic federalism and toward full

⁷ *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* (Cth).

⁸ The 2021–22 budget surplus of AUD5.7 billion was only kept from looking even more obscene than the previous year's record surplus of AUD5.8 billion by declining over AUD1 billion worth of dividends from state government utilities. A substantial part of those surpluses resulted from the 2018 changes privileging Western Australia's share of the GST (Treasury 2022:32, 82).

economic union (e.g. BCA 2006, 2008; also Fenna 2007; Gleeson 2018). Both sides of politics are now happy to advance their respective priorities through Commonwealth action. Partisanship remains important, but chiefly in the way it drives conflicting policy priorities between the two levels of government when they are in different hands.

9. Executive federalism

Centralisation and the resulting overlap between the Commonwealth and the states, along with the expanding scope of many social and economic concerns, spawned a comprehensive network of intergovernmental relations (Phillimore and Fenna 2017). At the peak level, those intergovernmental relations have taken the form of first ministers' meetings, formalised as COAG, the Council of Australian Governments, in 1992. COAG was particularly active in the early 1990s, when 'collaborative federalism' became the order of the day and the two levels of government worked together to pursue National Competition Policy (Painter 1998; Fenna 2019b). Underpinning the operation of COAG, ministerial councils and other aspects of the intergovernmental relations system have been senior officers' meetings and, in general, a wide range of preparatory work and negotiation within public service departments and agencies.

Periodic calls for peak-level intergovernmental relations to be institutionalised fall on deaf ears since the Commonwealth has no interest in tying its hands through more formal procedures (e.g. Kildea and Lynch 2011; SCRAF 2011). COAG remained an occasional and brief summit meeting, held at the behest of the prime minister, with its secretariat in the Department of the Prime Minister and Cabinet. What has been characteristic of the system, though, has been the pervasive use of formal intergovernmental agreements giving expression to arrangements for cooperation, coordination or collaboration between the Commonwealth and the states and territories. Though not justiciable or legally binding, those agreements carry considerable political and administrative weight.

When the pandemic necessitated quicker and more collegial decision-making, COAG was shelved in favour of a less-structured first ministers' meeting dubbed 'National Cabinet', discussed below.

10. Continuing importance of the states

Despite the extensive centralisation that has taken place since 1920, the states remain the primary agents of service delivery and thus retain both the potential to protect their autonomy in various ways and an ongoing importance in many policy spheres and thus the lives of their citizens. As noted above, the degree to which the Commonwealth provides guidance from above has led some commentators to wonder if Australia is shifting, or has shifted, from a dualist division of powers to an administrative one, where the central government sets the policy framework while implementation and administration is delegated to the constituent units (e.g. Keating and Wanna 2000:148; Saunders 2013). There is some truth in this (Mueller and Fenna 2022). However, it must not be forgotten that the states retain an important number of policymaking powers in their own right and in many of those policy domains the classic Left–Right contest of policy priorities and orientations is clearly evident (Phillimore and Fenna 2020).

The federalism roller-coaster

The first two decades of the twenty-first century have been tumultuous ones for Australian federalism, fluctuating between conflict and cooperation, centralisation and state assertion. This was driven by the intersection between partisan changes and alignments on the one hand, and external forces and events on the other. Prominent among the latter were terrorism; global competitiveness pressures; the global financial crisis; climate change; and the COVID-19 pandemic.

Continuing centralisation

The twentieth century ended well for the states with the introduction of the GST on 1 July 2000, that process having taken a very collaborative form and the new tax ensuring them a reliable flow of general-purpose revenues.⁹ The twenty-first century began, however, with the terrorist attacks of 11 September 2001 in the United States ('9/11') engendering a fresh expansion of Commonwealth powers. The states cooperated via 'referral' of

⁹ Collaborative to the point that the *A New Tax System (Commonwealth–State Financial Arrangements) Act 1999* (Part 3) stipulates that 'The rate of the GST, and the GST base, are not to be changed unless each State agrees to the change'.

power—provision for which is made in s. 51(xxxvii) of the Constitution—giving the Commonwealth an enhanced role in combatting terrorism and cross-jurisdictional crime (Australia and States and Territories 2002; Lynch 2012).¹⁰ This was followed by various other centralising initiatives and developments, driven much more by ideological and partisan motives. In 2006, the High Court gave its imprimatur to the Commonwealth's use of the 'corporations power' to take over industrial relations so that it could remould them in accordance with the Coalition Government's ideological preferences.¹¹ In 2007, a swag of enumerated powers were used to take control of the central river system of the mainland eastern states and create the Murray–Darling Basin Authority (Gardner 2012; Connell 2013).¹² Meanwhile, coercive use of the spending power enabled partisan intervention and longer-term centralisation in schooling while opportunistic unilateralism occurred in vocational education and hospitals. The Commonwealth passed the *Australian Technical Colleges (Flexibility in Achieving Australia's Skills Needs) Act* in 2005 that brought it into direct competition with the states' longstanding vocational education and training systems and intervened in 2007 to take over a Tasmanian hospital that was slated for closure (Howard 2007b).

COAG, which had been such an important element of Australian federalism in the early 1990s, was convened only occasionally. In 2005, the decade-long program of National Competition Policy reforms that had been the high point of cooperation between the Commonwealth and the states concluded and nothing was taking its place (Fenna 2019b).

Compensatory federalism: Labor in the states

This was not the whole story, though. A counterweight existed to these strongly centralising developments and declining intergovernmentalism in the form of state initiatives and collective action—'compensatory federalism', as such a tendency has been called (Derthick 2010). In response to one area in which the Commonwealth was deliberately taking very little action, the states led the way on early emissions-reduction policies to address climate change. Individually they initiated their own programs, and collectively

10 *Criminal Code Amendment (Terrorism) Act 2003* (Cth).

11 In the 'Work Choices' case, *New South Wales v Commonwealth of Australia; Western Australia v Commonwealth of Australia* [2006] 231 ALR 1.

12 The *Water Act 2007* (Cth). The Murray–Darling Basin Authority then set about implementing the Murray–Darling Basin Plan.

they planned a national emissions-trading scheme. This was one policy challenge that played to federalism's strengths: policy development could readily shift to the state level to circumvent a reluctant central government; initiatives could develop and unfold in a way best suited to local needs and preferences; and actions could be incremental and additive. South Australia, the mainland state least wedded to hydrocarbons and whose circumstances were most conducive to renewables, surged ahead (McGreevy et al. 2021), with other jurisdictions following as per their individual circumstances.

Other forms of compensatory policy activism were also occurring at the state and territory level, with the introduction by the ACT of its *Human Rights Act* in 2004 and Victoria with its *Charter of Human Rights and Responsibilities* in 2006 (Evans and Evans 2008). This, again, reflected ideological and partisan divisions, but provided some indication that federalism could serve as a 'democratic laboratory' with the states being able to 'try experiments in legislation and administration' from which others can learn (Bryce 1893:353). A 'bill of rights' may or may not be a good thing and may be implemented in different ways, so such an incremental, experimental approach has much to recommend it, as with other possible institutional modifications (Fenna 2010a).

With 'wall to wall' Labor governments, the states and territories also took the first real initiative to establish a collective action body, the Council for the Australian Federation (CAF). Surprising as it seems, the Australian states had never clubbed together in an act of horizontal intergovernmentalism before. Solidarity of that nature potentially protects state interests in two ways: providing a means to obviate central government intervention by addressing common issues themselves; and increasing their bargaining clout (Schnabel 2020). It seems that CAF was only possible, though, because and for as long as the jurisdictions were all governed by the same side of politics, facing partisan opposition from the Commonwealth (Tiernan 2008; Menzies 2012; Chordia and Lynch 2015).

Meanwhile, the states were also pursuing a set of proposals dubbed the National Reform Agenda developed by the Victorian Government (DPC and DTF 2005). This was envisaged as picking up the baton where the conclusion of the National Competition Policy left off, expanding the focus to include 'human capital' formation—though exactly what this would involve was always rather vague (e.g. Silver 2008:67–68). COAG (2006)

agreed in principle to this, and established a new body, the COAG Reform Council, to supersede the National Competition Council that had assessed progress on National Competition Policy.

Pulling together: Labor hegemony

Things changed radically with the election in late 2007 of a Labor Government in Canberra pledged to ‘end the blame game’ and repair Australian federalism after a decade of Coalition rule (Rudd 2005). The Rudd Government set about that task energetically, perhaps even frenetically, turning COAG from a virtually moribund entity into what the new prime minister liked to call the ‘workhorse of the nation’ (Rudd 2007). Issues were tackled across a range of policy areas, but the centrepiece was sweeping reform to the system of conditional grants that provided the states with a quarter of their revenue and laid down rules across a range of policy areas.¹³ These were condensed down to a handful of block grants, with much of the conditionality removed (Treasury 2009; Fenna and Anderson 2012).¹⁴ The quid pro quo for a much lighter Commonwealth touch was cooperation from the states in an ambitious new arrangement for performance benchmarking. This would shift the focus from input and output requirements to outcomes assessment (Fenna 2014), and be carried out by the recently-created COAG Reform Council, a genuinely collaborative intergovernmental body (CRC 2010; Gallop 2012; O’Loughlin 2012).

At the same time as restoring some of the character of federalism by winding back conditionality, the reform program also sought to tackle what was perceived to be one of the detrimental consequences of divided jurisdiction: a balkanised economy. Creating internal free trade had been a central purpose of federation, and eliminating remaining and accumulated obstacles as demanded by big business was seen as completing that project. The *National Partnership Agreement to Deliver a Seamless National Economy* was signed in 2008, outlining a program of reform and providing for ‘facilitation payments’ as had first been instituted to compensate the states for loss of revenue resulting from National Competition Policy.

At the same time as this ambitious program of federal reform was getting underway, Australia was hit by the global financial crisis, to which the Rudd Government also responded with alacrity (Fenna 2010b). It was a busy

13 *Intergovernmental Agreement on Federal Financial Relations*, 2009.

14 *Federal Financial Relations Act 2009* (Cth).

time. An economic disruption of that magnitude may well have had a derauling and centralising effect on that reform program and the system generally; instead, though, it proved something of an elixir. Much of the Commonwealth's counter-cyclical spending program was implemented through the states—providing the kind of fiscal emollient that under normal conditions the states could only dream about (Anderson and Fenna 2010). At the same time, the occasional forays by the Commonwealth into implementation only served to reinforce the perception that these things were best left to those closer to the action, the states (Kortt and Dollery 2012).

Reversion to type

From such heights, there was really no way but down for intergovernmental relations, and signs of that occurring emerged soon enough. Centralisation was evident in the move to a national curriculum and testing regime for the state-run school system under the 'Education Revolution' rhetorical banner (Harris-Hart 2010; Kayrooz and Parker 2010; Savage 2021). More overt was the prime minister's determination to force sweeping health system changes on the states, changes moreover that included a plundering of the GST pool to help cover the Commonwealth's contribution.¹⁵ The prime minister's determination was evidenced in the threat to hold a constitutional referendum on healthcare powers if necessary (Rudd 2010).

If the states and territories do not sign up to fundamental reform, then my message is equally simple: we will take this reform plan to the people at the next election—along with a referendum by or at that same election to give the Australian Government all the power it needs to reform the health system.

Western Australia held out and the prime minister was shortly thereafter removed from office by his own party (for a host of other reasons). A 'watered down' version of the health reforms, leaving the GST pool intact, was eventually implemented under Rudd's successor Julia Gillard (Duckett 2015:136; also Australia and States and Territories 2011; Anderson 2012).

On top of this, the Rudd Government decided to impose a new tax on the mining industry, the Resource Super Profits Tax, inspired by a major Treasury report on tax reform (AusGov 2010; Henry 2010; Sanyal and

¹⁵ *National Health and Hospitals Network Agreement*, 2010.

Darby 2010). On the face of it, this was a rational attempt to ensure that a greater share of the windfall profits from the mining boom were captured for Australians, correcting deficiencies of the existing state government royalties approach. However, it was an ill-conceived and ill-fated move that invited conflict with both the industry and the mining states (SSCSNT 2011; Kellow 2016). A more conciliatory version, the Minerals Resource Rent Tax, was legislated in 2012 by the Gillard Government, only to be repealed once Labor lost office.¹⁶ All this was occurring while federalism was coming under strain from the pressure the mining boom was putting on Australia's system of fiscal equalisation. By 2010, the heady days of Rudd's cooperative federalism were already a thing of the past. Much more consensual and much more successful an exercise in centralisation was the launching of the National Disability Insurance Scheme (NDIS) on 1 July 2013 under Julia Gillard.¹⁷

With the Coalition returned to office under Tony Abbott in 2013, the end of that experiment in cooperative and collaborative federalism was confirmed. The new government's first budget announced swingeing cuts to Labor's schools and hospitals funding, instigating a fresh round of intergovernmental conflict (SSCH 2016). At the same time, the COAG Reform Council, whose role had been so central to the Labor Government's reform of the intergovernmental grant system, was abruptly and unilaterally terminated. The states made no protest—unsurprising given that the CRC's mandate was to assess their performance. In general, the demise of Australia's short-lived experiment in federal benchmarking was unsurprising too—predictable and predicted (e.g. Fenna 2012).

Start/stop: Coalition ambivalence

Following conservative tradition, the incoming Coalition Government appointed a 'Commission of Audit' to help frame its agenda—one set of recommendations from which was that Australia return to a more coordinate style of federalism with a clearer division of roles and responsibilities and greater financial autonomy for the states (NCA 2014). Following this, the Abbott Government launched a comprehensive review of the system, its *Reform of the Federation White Paper* (RFPW 2014). This was one of the periodic instances when moves are made to address dysfunctionalities

¹⁶ *Minerals Resource Rent Tax Act 2012* (Cth).

¹⁷ *Intergovernmental Agreement for the National Disability Insurance Scheme (NDIS) Launch; National Disability Insurance Scheme Act 2013* (Cth).

arising out of the way the system has evolved and adapted to changing needs and conditions (Fenna 2012). That inquiry produced several research papers and a Green Paper (DPMC 2015) just before a change of Liberal Party leader and hence of prime minister led to its abrupt termination. The roller-coaster continued with Malcolm Turnbull, the new prime minister, suddenly floating the idea of returning taxation powers to the states—a notion that was as unexpected as it was unrealistic and unsuccessful—and just as suddenly abandoning it (Turnbull 2016; Fenna 2017).

States to the fore: Climate change

As its predecessor had a decade earlier, the federal Coalition governments in office from 2013 to 2022 under a succession of prime ministers, resisted pressure to take action on climate change and, indeed, turned back the clock on measures recently introduced. The Rudd–Gillard Labor governments had taken over from the states the proposal for a carbon tax of some form, eventually introduced with passage of the *Clean Energy Act 2011* (Cth), coming into effect the following year. Its removal had been one of the Coalition’s main policies and first actions—‘axe the tax’, as their rhetoric put it. Then-Treasurer Scott Morrison’s appearance in parliament proudly brandishing a lump of coal in 2018 epitomised the Coalition’s position on climate change, a position that in no small measure helped it lose the election of 2022.

In turn, just as they had done a decade earlier, the states took the initiative and sought to compensate with programs of their own. Despite the great extension of Commonwealth powers since 1920, the states retain an almost-full panoply of tools and responsibilities with which to reduce emissions. This is particularly the case given that they are in charge of their respective electricity systems—the leading source of greenhouse gas emissions. Federalism was again demonstrating its possibilities as an opportunity structure (Fenna 2023). By 2021, it was clear that those programs were having a substantial impact, with the share of electricity generated from renewable sources continuing to surge and coal-fired generators clearly on the way out. As had been the case when the Coalition last governed federally, this occurred because of the number of Labor governments at the state level. By 2020, even the Coalition Government in New South Wales had followed suit. When, at the United Nations Climate Change Conference in late 2021, the prime minister announced that Australia would commit to net-zero emissions by 2050, he was merely following the lead of the states and territories, all of whom had already committed to targets equal or greater ambition.

States to the fore: COVID-19

It was the COVID-19 pandemic, though, that revealed most dramatically the continuing importance of the states and the advantages of divided jurisdiction; and it was the pandemic that revived a degree of cooperative federalism not seen since 2008–09 (Fenna 2021). That the gravest health threat since the Spanish Flu of a century earlier would reveal the strengths rather than the weaknesses of Australian federalism was not necessarily to be expected. This was particularly so given that it came immediately on the heels of catastrophic bushfires that had prompted the prime minister to advocate enhanced Commonwealth emergency powers and establish a royal commission to that end (Morrison 2020a; RCNDA 2020). It would not have been the first time a crisis had ratcheted-up the degree of centralisation in Australian federalism.

The Commonwealth's *Biosecurity Act 2015* claims extensive powers over an emergency such as this (Lee et al. 2018:171). However, it is the states that not only hold responsibility for emergency services but also for the schools, hospitals, policing, business regulation, transport and other frontline aspects of pandemic management. They responded forcefully, adopting measures appropriate to their own varying circumstances and, more controversially, closing their borders to reduce transmission. A reasonably clear division of responsibilities operated, with the Commonwealth controlling the external border, providing material support of various kinds and dealing with the economic fallout, and the states exercising responsibility for control measures within their own territories as well as management of their respective hospital systems.

In taking charge to such an extent, the states were regularly at odds with the Commonwealth, particularly about the appropriate severity of control measures, and that tension persisted well into 2021 as new outbreaks continued. Whether it was lockdowns, school closures or border closures, the Commonwealth frequently expressed its frustration and its desire to see the economy—for which it bears primary responsibility—opened back up. Its draconian powers in the *Biosecurity Act* were of little assistance in that regard. Resolute action by state governments, though, was strongly supported by public opinion and they prevailed throughout. There was no action more expressive of Australian federalism's revival than state border closures. On the face of it, these were flagrantly at odds with the unambiguous language of the Constitution's section 92 and were challenged in the High Court as such. The Commonwealth repeatedly deplored the closures and

joined the challenge, only withdrawing when the savage second wave hit Victoria. The High Court upheld the closures as a legitimate exception to the requirements of section 92.¹⁸

There were also challenges at the operational boundary between the Commonwealth and the states. The most significant concerned quarantine, a major component of the control strategy through into early 2022. Quarantine is an enumerated Commonwealth power under section 51; however, its implementation involves access to, and administration of, significant accommodation resources and this put it into state hands. Mismanagement of quarantine gave rise to the deadly second wave in Victoria 2020 and questions continued to arise about its handling (CHQI 2020).

At the peak level, the states worked closely with the Commonwealth in an arrangement best described as ‘loose coordination’. This was helped by development over more than a decade of coordination protocols under the auspices of COAG expressed in a succession of planning documents and intergovernmental agreements. By far the most visible manifestation of this coordination was the immediate transformation of COAG into ‘National Cabinet’, with weekly meetings having a much more collegial character than COAG’s summit-style events and providing a reasonable consistency of message and policy (Morrison 2020b). The states, and several commentators, were effusive about this new arrangement—because of its consensus-based decision-making and the way it ‘established national principles that recognise the sovereignty of states and territories to implement policies according to local circumstances’ (Victorian Government 2020). Others were impatient with the fact that its decisions were not binding, even suggesting National Cabinet outcomes were often a “decision” in name only’, presenting a mere ‘fig-leaf of unity’ (Duckett et al. 2020:22–23). However, this deviation from rule by Commonwealth fiat should surely be seen as highly functional and consistent with the federal principle.

‘National Cabinet’ was more a case of operational change and rebranding than of institutional change, since a cabinet is only such by virtue of the combination of party discipline and collective ministerial responsibility to parliament, neither of which pertain to what was little more than a rejigging of peak-level executive federalism. This reality was confirmed by the Administrative Appeals Tribunal when an unsuccessful attempt was made to

18 *Palmer & Anor v The State of Western Australia & Anor* HCA 5 (6 December 2020).

shelter National Cabinet records from freedom-of-information requests.¹⁹ The government's response was to make an attempt at endowing National Cabinet with privileged status via legislation, but the Bill did not proceed beyond second reading before federal parliament was dissolved in 2022.²⁰

National Cabinet had not been operating long before the prime minister announced with great fanfare that it would supersede COAG permanently, with the promise that the new arrangement 'will change the way the Commonwealth and states and territories effectively and productively work together' (Morrison 2020c). For the prime minister, it was to be a 'congestion busting process' that would put an end to 'endless meetings that do not result in action'. Others endorsed this view, urging leaders to seize the moment and not squander 'a once-in-a-generation opportunity' to reform intergovernmental relations (Smith 2020). This, though, was either political puffery or political naïveté. National Cabinet emerged in response to extraordinary circumstances and will inevitably lapse or revert to standard negotiations mode once conditions normalise. Among the reasons it worked so well were: the fact that states so heavily occupied the emergency management field and were thus equal partners; a federal as distinct from a unitary approach worked well and was recognised by public opinion as doing so; this issue eclipsed the perennially divisive issues in Australian federalism; and the pandemic was much less a zone of ideological conflict than most public policy questions. Once the conflict, messiness, complexity and difficulty of Australia's shared governance issues return, so, unavoidably, will the difficulties of executive federalism.

Conclusion

Thinking back to the attempt at the beginning of this chapter to encapsulate the essence of Australian federalism in a handful of key points, there are a number of observations we can make in the light of recent developments. First, centralisation is the underlying reality and continued into the new millennium. Recent milestones in that process include the extension of Commonwealth policing commitment and powers; the High Court's expansive interpretation of the corporations power; the national curriculum

19 *Patrick and Secretary, Department of Prime Minister and Cabinet (Freedom of Information)*, AATA 2719 [2021].

20 *COAG Legislation Amendment Bill 2021*. See, also, Senate Finance and Public Administration Legislation Committee report on the Bill, October 2021.

and associated bodies; and the NDIS. The bushfires did not result in another ratcheting up, but there was certainly indication they might. Meanwhile, leaders from both sides of politics have not hesitated to call the very notion of federalism into question.

Second, the original decentralised conception finds its expression in the continuing importance of the states in a wide range of service delivery and regulatory functions. This was particularly evident during the pandemic but also in climate change policy. Third, although shades of administrative federalism have certainly crept into the system as a consequence of centralisation, the essentially dualist nature of the division of powers found its expression in both the compensatory action of the states in the field of climate change mitigation and their strongly autonomous role during the pandemic. For several decades, Australian federalism has been battered by issues that do not lend themselves to a fragmented federal solution. Environmental protection, economic efficiency and regulation, human rights, international competitiveness, globalisation, interjurisdictional crime and terrorism have been among these challenges that have provoked centralising responses. Climate change, by contrast, is one domain where a state-level response can be effective and the pandemic has been particularly well-suited to the kind of localised response federalism invites.

Fourth, although the partisan divide over federalism has dissipated, partisanship contributes significantly to the dynamics of Commonwealth–state relations in the way it drives competing policy agendas between governments. That was particularly clear with a highly ideological issue such as climate change, less so with a much less ideological issue such as the pandemic. Finally, executive federalism fluctuates according to both the nature of the issues confronting governments and the partisan composition of those governments. The two highpoints were the early years of the Rudd Labor Government when COAG was harnessed to serve as the workhorse of the nation, and during the pandemic when the first ministers’ meeting was remodelled and repackaged as National Cabinet. Given the very low level of institutionalisation, it is not surprising that peak level intergovernmental relations fluctuate so much from one period to the next in Australian federalism—and will continue to do so.

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6

Federal financial relations in Australia

Rachel Thompson¹

Abstract

Federal financial relations in Australia are characterised by vertical fiscal imbalance. To address this, in recent years the Commonwealth has made payments to the states and territories ('the states') approaching 50 per cent of total state revenue. These payments typically take the form of untied, general revenue assistance or conditional payments for specific purposes (to support service delivery in specific sectors like health, education, infrastructure and housing).

Recent reforms in Australia will shape the way the states' goods and services tax (GST) entitlement—the most significant source of general revenue assistance—is determined and how funding agreements between the Commonwealth and the states are developed.

The rhythm of intergovernmental relations quickened in 2020, as the Commonwealth and states engaged more frequently to coordinate economic and social responses to bushfires and the COVID-19

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pandemic, signalling a positive development in the evolving practice of inter-jurisdictional cooperation that has supported Australia's economic development.

Keywords: horizontal fiscal equalisation; federalism; intergovernmental agreements; vertical fiscal imbalance.

Introduction

Since Federation in 1901, the Commonwealth's ability to raise revenue has grown to exceed the demands of its expenditure responsibilities under the Australian Constitution, while the states and territories (referred to throughout as 'the states') bear responsibilities for service delivery that exceed their resources (Robinson and Farrelly 2013). Responses to vertical fiscal imbalance (VFI) as an existential fact of Australia's federal system have evolved over time but in recent years the Commonwealth has made payments to the states equivalent to just under 50 per cent of total state revenue.

Since the 1930s, the allocation of transfers from the Commonwealth between states has incorporated at least an element of horizontal fiscal equalisation (HFE)—that is, attempting to equalise states' fiscal capacity to deliver public services to their citizens. Australia has elected to target a higher degree of HFE than most federal systems (Productivity Commission 2018:Finding 2.1). Between 2001 and reforms legislated in 2018, the goods and services tax (GST)—the states' main source of general revenue assistance—has been distributed according to the principle of full equalisation.

Critiques of Australia's approach to HFE generally do not question that equality of access to services by Australian citizens, regardless of where they reside, is a worthy national objective. Arguments in favour of reforms advanced by the states are typically motivated not only by a concern for their own fiscal positions but also by uncertainty over future GST revenues because of the system's volatility, particularly in the face of economic shocks. The impact of the mining boom on state relativities (such that GST allocations changed more slowly than state fiscal positions) provided the impetus for significant changes to Australia's approach to HFE, agreed in 2018. Under reforms commencing in 2021–22, Australia will take a step back from full equalisation in a move designed to make the system more resilient to economic shocks and reduce volatility in state GST payments.

The economic shock precipitated by the COVID-19 pandemic has also brought about a change in how the Commonwealth and the states approach agreements under which payments for specific purposes are made. A new framework agreed in 2020 is notable for the emphasis it places on the collective role of treasurers as the gatekeepers for new funding agreements, states' primacy over service delivery and the importance of funding certainty in areas requiring long-term investment. This is not the first occasion that jurisdictions have attempted to streamline agreement-making and provide greater autonomy for the states in service delivery. However, alongside the recent HFE reforms, it demonstrates the capacity for Australia's system of federal financial relations to evolve rather than rupture in the face of ongoing challenges. This evolutionary capacity will continue to be tested in the future, given the ongoing presence of VFI and need for all levels of government to respond to new economic and social challenges.

The evolution of VFI

It is now 120 years since six self-governing British colonies federated to form the Commonwealth of Australia. Australia's federal system comprises a national government, six states and two self-governing territories. Australia's Constitution divides power between arms of government—the executive, parliament and judiciary—and levels of government—federal/Commonwealth and the states. Reflecting the prevailing political attitudes of the time, the bargain struck at Federation envisaged the states being the dominant player in this new federal system (Robinson and Farrelly 2013:308). From a fiscal perspective, the lived experience of federalism in Australia has turned out quite differently, with substantial VFI persisting to the present day (see Figure 6.1).

In 2021–22, Commonwealth payments to the states totalled AUD163.9 billion, comprising AUD86.4 billion in general revenue assistance (or untied funding that states can use for whatever purpose they choose) and AUD77.5 billion in payments for specific purposes (or tied funding that must be spent in a certain way, is underpinned by a funding agreement and is often conditional on the achievement of milestones; see Commonwealth of Australia (2022)). The payments for specific purposes typically support state delivery of services like hospitals, schools and the provision of infrastructure. In recent years, these Commonwealth payments represent just under half of total state revenue (see Figure 6.2).

DILEMMAS IN PUBLIC MANAGEMENT IN GREATER CHINA AND AUSTRALIA

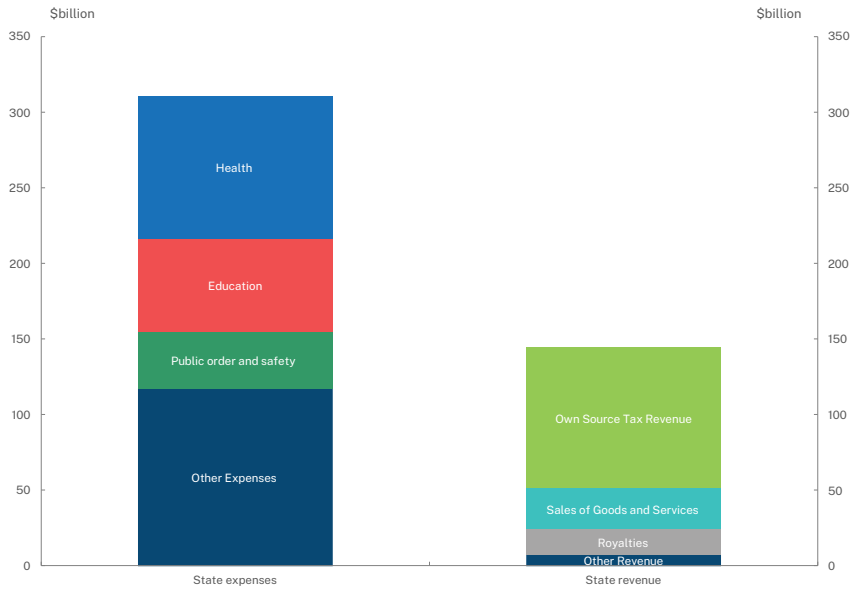


Figure 6.1: VFI, across states, 2020–21.

Source: ABS (2022); Commonwealth of Australia (2022).

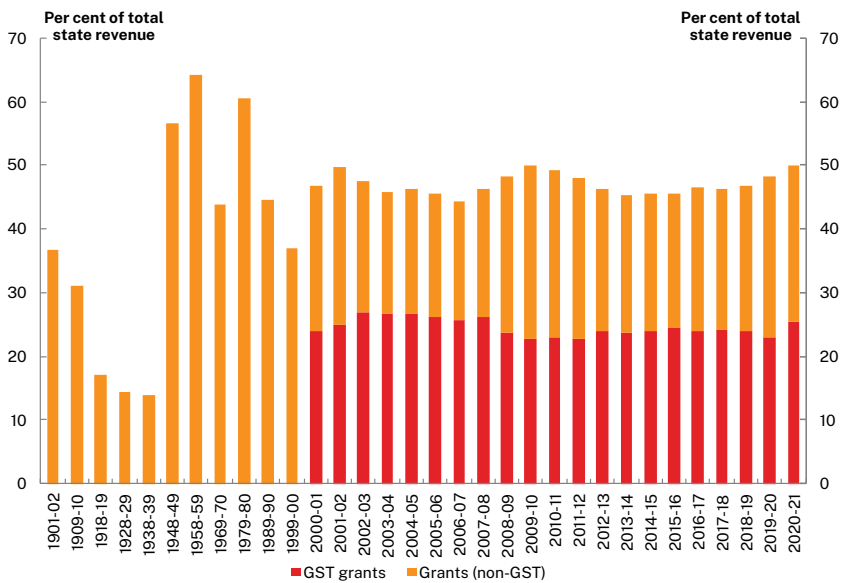


Figure 6.2: Commonwealth Grants as a per cent of total state revenue.

Source: Supplied by Australian Treasury, updating Figure 2.5 from the Productivity Commission 2018 inquiry report.

The Commonwealth's powers to tax and spend

Responsibility for excise duties was ceded to the Commonwealth at Federation, and until 1910 at least three quarters was distributed to the states. This was replaced in 1910 with a system of per capita grants and the ability for some states to make claims for special grants. Commonwealth assistance in relation to state debts and tied grants for specific purposes also emerged as tools for addressing VFI in the early dates of the federation.

In the 1926 'Roads Case',² the High Court established that it was permissible for the Commonwealth to make grants to the states under section 96 of the Constitution in areas of exclusive state responsibility. This opened an avenue by which the Commonwealth can—and to this day still does—pay the states to undertake activities that are beyond its defined constitutional competence.

From 1915, both the Commonwealth and the states had collected income tax. A single uniform system of income tax was introduced in 1942, withstanding a High Court challenge. While intended to be a temporary wartime measure it was retained and to this day remains the Commonwealth's largest source of revenue. In the 1970s, as part of the Fraser Government's 'New Federalism' policy, states were given the ability to impose a surcharge on income tax collected within their state. No state took up this option and it was eventually abolished.

In 1953, the Commonwealth handed back to the states the ability to levy land taxes and in 1971 allowed the states to levy payroll taxes (in exchange for a reduction in financial assistance grants). Neither proved, or were ever likely to be, a panacea to the fiscal challenges besetting the states. A further blow to the states came in 1997 with the High Court concluding that certain business franchise fees imposed by the states were in fact excise, which could only be collected by the Commonwealth.³ It was against this backdrop that the introduction of the GST in 2000 was negotiated, resulting in the *Intergovernmental Agreement on Federal Financial Relations* (with much of its GST-related content retained by a superseding agreement in 2009).

2 *Victoria and Ors v Commonwealth* (1926) 38 CLR 399.

3 *Ha v New South Wales* (1997) 189 CLR 465.

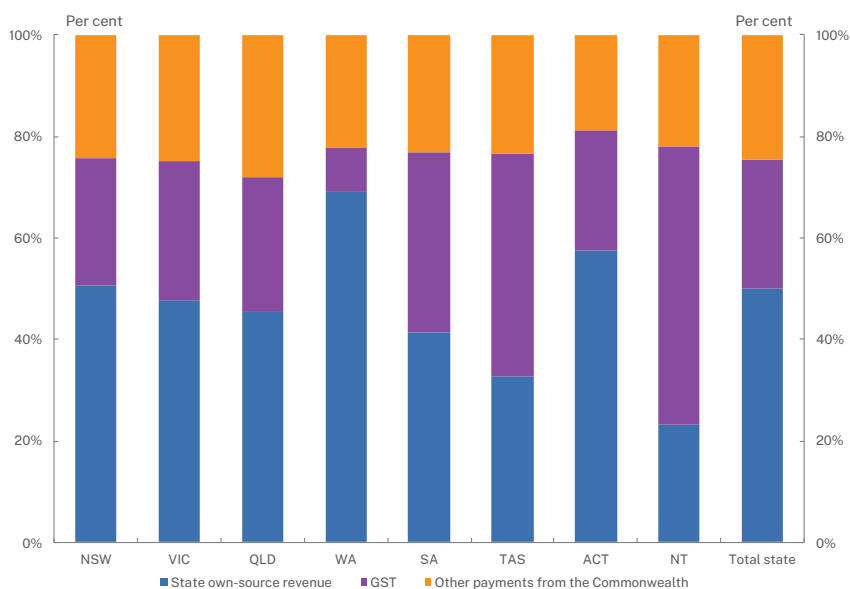


Figure 6.3: State own-source revenue, GST and other payments from the Commonwealth as a proportion of total state revenue, 2020–21.

Note: Totals may not sum due to rounding.

Source: ABS (2022); Commonwealth of Australia (2022).

Consistent with the agreement, the GST is now collected by the Commonwealth and distributed in full to the states (less costs of administration) without conditions. It is levied at a rate of 10 per cent on a broad, though not complete, base to most transactions for the sale of goods or supply of services. On the introduction of the GST, the states agreed to abolish a number of sales taxes and to the removal of financial assistance grants. Over time, the GST has become an important source of revenue for the states (see Figure 6.3).

A brief history of HFE in Australia

The early years

Increased demands for support through the Great Depression, and secessionist sentiment in Western Australia, led to the formation of the Commonwealth Grants Commission (CGC) in 1933 with a mandate to inquire into state requests for assistance and make recommendations to the

Commonwealth. The early reports of the CGC focused on financial need—seeking to assess the grant needed to lift a state to ‘about as good a position as other States’ (Productivity Commission 2018:71)—not equalising fiscal capacity to deliver economic or social outcomes. Subsequent CGC reports up until the late 1970s retained that basic standard but argued that special grants were only justified where a state was experiencing financial distress (Productivity Commission 2018:71).

From the mid-1940s to the mid-1980s, transfers between the Commonwealth and the states took the form of specific purpose payments (tied), distribution of a share of tax revenues (untied) and general financial assistance grants (untied) according to a formula. Claims for special grants diminished in significance. While the formula for calculating the distribution of financial support changed several times, a significant shift came in the late 1970s with the CGC given the task of determining per capita relativities. For the first time, these relativities were to take into account differences in the ability of states to raise revenue and differences in the cost of states providing comparable services, with the objective of enabling each state to provide services not appreciably different to those provided by other states.

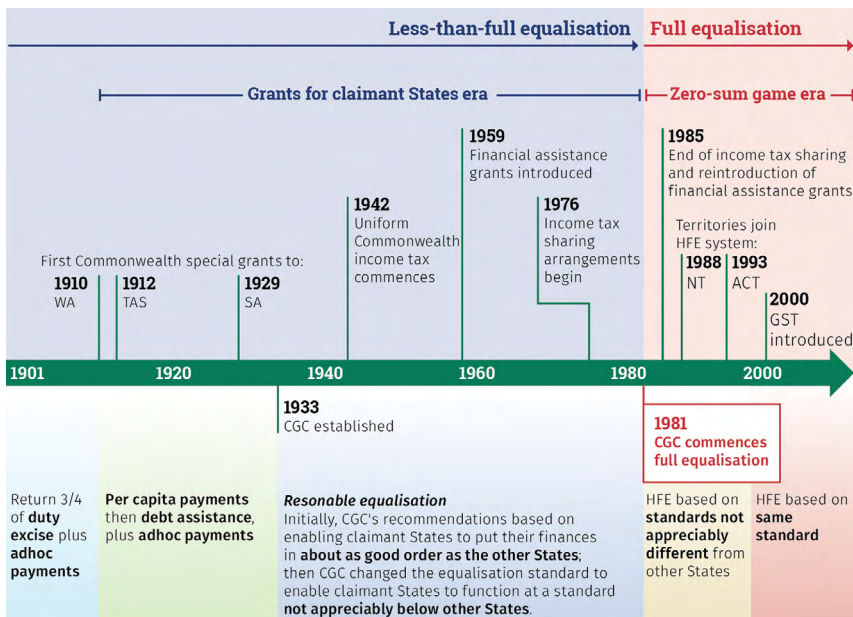


Figure 6.4: Approaches to HFE since Federation.

Source: Commonwealth of Australia (2018).

The post-2000 approach to HFE

Under the pre-2018 reforms to the HFE system, the GST was distributed to the states in a way that aimed to ensure that all Australians were able to receive the same standard of services, regardless of the intrinsic characteristics of the state in which they live. This is also known as ‘full equalisation’. Under this approach, the CGC made a recommendation to the Commonwealth Treasurer—typically presented as a set of relativities that show how much each state would receive of its per capita share—that seeks to give all states the same fiscal capacity to deliver public services and associated infrastructure to the same standard. To do this, the CGC took into account factors—so-called ‘disabilities’—that affect a state’s ability to raise revenue or demands on its expenditure that are perceived as being beyond the state’s control. A simple way to conceptualise this (as proposed by the Productivity Commission in 2018) is that, having assessed each state’s fiscal capacity, the CGC first equalised to bring each state up to the fiscal capacity of the strongest state. This has traditionally been Victoria and New South Wales (who together account for over 55 per cent of the Australian economy: see ABS (2021)), but since 2008–09 has been Western Australia, which has benefited from the resources boom. Any funds left remaining are then distributed on an equal per capita basis.

Payments from the Commonwealth made outside of the GST distribution pool—for example, the specific purpose payments under National Partnership Agreements—are generally taken into account in the equalisation process. In rare cases, the Commonwealth Treasurer may direct the CGC to exclude consideration of a specific payment in determining a state’s relativity.

As the GST pool, or the amount of revenue collected via GST, is fixed, its distribution has to date been a zero-sum game. In any given year, some states will have relativities of less than one, indicating that they will receive an entitlement that is smaller than their per capita share of the GST pool. To balance this, other states will receive relativities of more than one, indicating that they will receive more than their per capita share. This (somewhat inevitably) leads to tensions between those states who feel they gain from equalisation and those that would, at least on the face of it, be better off under a simpler per capita distribution model. While this tension reflects scarcity of fiscal resources, the particular model for addressing the

underlying goal of HFE highlighted ‘losers’ as well as ‘winners’. The states were understandably focusing on each marginal dollar of revenue the system provides; more is always preferable to less.

Recent challenges, critiques and reforms to HFE

The greatest challenge to Australia’s approach to HFE since the GST’s introduction has been in response to the mining boom,⁴ felt most acutely in Western Australia. This introduced a degree of unprecedented volatility into the GST distribution, which is challenging for state budgets. As mining royalties increased, Western Australia’s GST entitlement fell to 30 per cent of its per capita share. The Northern Territory experienced an almost 20 per cent fall in its share of the GST over just two years causing the Commonwealth to step in to provide top-up payments. Over this period, the share of the GST pool not distributed on a per capita basis also grew substantially, heightening perceptions of who ‘wins’ under HFE. In 2000–2001 around 8 per cent of the GST pool was redistributed according to HFE, growing to around 12 per cent in 2015–16 (Productivity Commission 2018:92). Discontent with outcomes over a number of years prompted a series of independent reviews of Australia’s approach to HFE, most notably a review in 2012 conducted by an eminent panel including former state premiers and an inquiry by the Productivity Commission in 2018.⁵

Critiques of Australia’s approach to HFE

A critique tested by both the 2012 review and the 2018 Productivity Commission inquiry was that, while the CGC’s methodology ‘mostly adjusts for fiscal disadvantages that are out of States’ control’ (Productivity Commission 2018:163), it effectively penalises them for undertaking significant economic reforms that pay fiscal dividends, despite the commission’s stated principle of policy neutrality. Whereas the 2012 review could not identify any conclusive evidence to support the argument

4 The Government’s interim response to the Productivity Commission’s HFE inquiry defined the mining boom as taking place from 2004–05 to 2013–14.

5 The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.

(Commonwealth of Australia 2012:Finding 9.1), the Productivity Commission considered this was a key justification for its recommendation for reform (Productivity Commission 2018:167).

As the CGC itself has subsequently reasoned, while changes in a state's tax mix have the potential to affect the CGC's distribution of GST revenue, offsetting the revenue benefits of the changes to the state, a number of considerations militate against this being an issue in practice. Where tax reform has the effect of increasing a tax base then the state may be assessed as having strong fiscal capacity and a lower GST requirement, especially where the state acts unilaterally. This is likely to be most particularly the case for reforms that reduce reliance on inefficient taxes and shift towards more efficient ones. However, any state tax reform—particularly of any significance—is likely to be implemented over multiple years and the impact on the state's GST revenue would be diminished by the CGC's practice of averaging state fiscal capacities over three years. Further, the terms of reference given to the CGC could require it to take steps to mitigate the impact of significant state tax reform in any given year (Commonwealth Grants Commission 2021). This was also the conclusion of the 2012 *GST Distribution Review* (Commonwealth of Australia 2012:Finding 9.1).

Other critiques argue that while the CGC's approach to equalisation is well regarded for its rigor, it is overly complex leading to a lack of transparency which ultimately undermines community confidence in the 'fairness' of the system (Productivity Commission 2018:164). While perceptions of the CGC's methodology and processes are undoubtedly relevant to ongoing community acceptance of its role, there is no 'simple' way of achieving the kind of approach to HFE that Australian jurisdictions have committed to. The assessment of fiscal capacities and state-specific challenges in expenditure is inherently a complex process. Whatever a seemingly straightforward per capita distribution model might have to offer in terms of simplicity and transparency as to how the GST pool is allocated, it raises a plethora of questions that are not easily answered. Such questions include how a degree of HFE—partial or otherwise—might be achieved and whether any attempt to equalise capacities for service delivery to Australian citizens could command a political consensus across the federation.

Ultimately the critiques of Australia's approach to HFE advanced in the context of the mining boom were fundamentally about the predictability of general revenue assistance received by the states. While relevant to the extent of equalisation the system targets and the way it is achieved, it is a somewhat different fiscal objective.

Stepping back from full equalisation

In its final inquiry report, the Productivity Commission recommended that Australia step back from full equalisation to instead adopt a ‘reasonable’ standard. Acknowledging that there is a range of approaches that may meet that standard, the commission recommended equalisation to the average of all states (rather than to the strongest state as occurs under full equalisation). The commission acknowledged this approach would result in a material redistribution of the GST between states and the need of a transition to the new system (Productivity Commission 2018:236).

In its interim response to the Productivity Commission inquiry, the Commonwealth said that, while it agreed with the need for ‘reasonable equalisation’, it would seek the agreement of the states to a different approach. Instead of equalising to the strongest state overall, the CGC may be asked to equalise to that of either New South Wales or Victoria (whichever is strongest). These have historically been the fiscally strongest states since the introduction of the GST and they are the two most broad-based economies within the federation and least subject to terms of trade shocks. To give states further confidence in the resilience of the system to economic shocks, a GST relativity floor would also be introduced (a minimum per capita share of GST revenues). Where a shock was significant enough to push a state’s relativity to the floor, the CGC would not be permitted to recommend a lower relativity. To help smooth the transition, the Commonwealth proposed to top up the GST revenue pool to ensure no state would be worse off (in transition) than it would have been under the old system (with that transition to commence in 2021–22 and last for six years).

The Commonwealth also agreed to a ‘no-worse off’ guarantee, specifying that it would compensate the states if they were disadvantaged by the reforms, as well as a Productivity Commission review of the reforms to ensure they are operating efficiently, effectively and as intended by the end of 2026. Prior to this new arrangement commencing, the Commonwealth would make short-term funding available to Western Australia to bring it up to the proposed relativity floor of 0.70 (rising to 0.75) and to the Northern Territory to ensure it keeps at least a predetermined share of GST revenue. These changes were legislated through the passage of the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* (Cth), and the transition to the new approach commenced in 2021–22.

Changes to intergovernmental funding agreements

General revenue assistance—as delivered through the distribution of GST revenues—is only part of the fiscal relationship between the Commonwealth and the states. Almost the same amount is transferred from the Commonwealth to the states under specific purpose payments. Legislation provides that, if the Commonwealth wants to make a payment for specific purposes to one or more states, the payment and its conditions must be outlined in a written agreement. While this has made accountability for service delivery more challenging, it has also required all Australian governments to work together in pursuit of national economic and social objectives.

Streamlining and centralising agreement making

The 2009 *Intergovernmental Agreement on Federal Financial Relations* (IGA FFR) brought about a step change in how payments for specific purposes were agreed and managed. Some 90 agreements were consolidated into 6 core National Agreements (payments to achieve national objectives) and around 16 National Partnership Agreements (payments to fund the delivery of specific reforms or projects). The intention was to give states greater autonomy in *how* to undertake an activity, while imposing clearer accountability as to the achievement of agreed objectives and outcomes (COAG 2009:Part 2(b)). Despite some initial success, agreements once again tended to proliferate, arguably diluting the emphasis on outcomes and constraining states' autonomy over the means to achieve them. However, changes announced in the context of the COVID-19 pandemic demonstrate a (re)commitment to the original intention.

In May 2020, all jurisdictions agreed that the Council on Federal Financial Relations (CFFR)—the ministerial council of treasurers—would be responsible for all Commonwealth–state funding agreements, including reviewing the agreements process (Morrison 2020). The first order of business has been a streamlining of agreements and payments under those agreements through a new Federation Fund Agreements (FFA) framework announced in August 2020. Payments to the states are now facilitated through schedules to the FFAs with all schedules attached to one of five

overarching sectoral FFAs, covering housing and community services, education and skills, environment, health and infrastructure. Existing agreements have been consolidated into one of these five agreements.

The framework also includes principles for the negotiation and content of new agreements that emphasise: the importance of agreements achieving strong economic, social and fiscal outcomes; the need to recognise and balance government priorities at all levels of government; and avoiding the proliferation of low-value agreements. The principles notably highlight the desirability of providing states with budget autonomy as well as flexibility to allow them to deliver services in a way they consider will most effectively and efficiently improve outcomes. It also acknowledges the importance of providing funding certainty ('where possible'), particularly in contexts and sectors with long-term funding needs where short-term agreements may lead to inefficient delivery models (CFFR 2020). While the principles highlight CFFR's pre-eminent role in agreement making, they also reassure portfolio ministers (at all levels) that they will be involved. Finally, the principles acknowledge the need for performance reporting and transparency to underpin accountability.

Putting these principles to work in practice is a task that lies ahead of treasurers and their departments (and portfolio ministers who are to be involved, along with their departments). However, they represent a fresh attempt to achieve a step change in the conduct of federal fiscal relations outside of the HFE system. Built into the new framework is also a review mechanism, providing opportunities for learning and reflection on the extent to which the CFFR is effective in its role in agreement making and if the new framework has resulted in better outcomes.

The central role of treasurers

The role of treasurers in this process is not without its critics (Podger 2020). The framework itself acknowledges that the involvement of relevant portfolio ministers will continue to be critical to agreement making. This centralisation of responsibility reflects both the inherently fiscal nature of the challenge that states face and should bring a whole-of-economy perspective to agreement making, consistent with the extent to which Australia is now—120 years on from Federation—an integrated national economy.

While contested, there are also signs that institutional arrangements necessitated by the COVID-19 pandemic may provide the basis for more sustained and impactful cooperation. In early 2020, jurisdictions agreed that a National Cabinet, comprising the first ministers of the Commonwealth and the states, would replace the Council of Australian Governments (COAG) as the pre-eminent forum for intergovernmental discussions and negotiations, with a focus on meeting more frequently, reducing the bureaucracy associated with the COAG meeting cycle. National Cabinet initially agreed to meet every two weeks, with CFFR convening on a similar tempo in a similarly informal fashion. CFFR has now settled into a regular quarterly meeting cycle.

This approach has facilitated information-sharing in a time of great uncertainty and helped the coordination of policies across both levels of government. For example, the Commonwealth and the states agreed to share the burden of a pandemic disaster leave payment that would provide AUD1,500 to residents of most states of Australia who are unable to work because they have been asked to quarantine, self-isolate or care for someone who has COVID-19. It has also driven reform. In August 2020, CFFR also agreed to prioritise implementation of a uniform scheme to support widespread occupational mobility via automatic recognition of a range of occupational licenses, subject to the passage of legislation in individual jurisdictions. A uniform scheme will make it easier and less expensive for businesses, professionals and workers to move or operate within jurisdictions and across Australia, with positive implications for job creation, competition and innovation, and lower prices for consumers and businesses. The aim of the reform is to ensure that workers can take up new job opportunities wherever they arise as the economy recovers from COVID-19.

It remains to be seen whether the combination of the new FFA framework and the recent step-up in dialogue and cooperation between treasurers will ultimately produce a new era of financial cooperation between the Commonwealth and the states sustained beyond the initial impetus of the pandemic. The range of fiscal, economic and social challenges that all jurisdictions face going forward provides at least a compelling rationale for further cooperative action.

Future challenges

The reforms to Australia's approach to HFE agreed and legislated in 2018 deal with how the GST revenue pool is distributed, not the adequacy or sustainability of the pool itself. In addition to concerns raised by some states about the impact on their share of the GST pool from these reforms, the economic challenges of recent years have prompted revisions of the growth of the GST pool. There have been spurts of public discourse about raising the rate of the GST and revisiting those goods and services excluded from the base. For example, in 2020 the NSW Government commissioned a Review of Federal Financial Relations which, while stopping short of making specific recommendations, recommended that all jurisdictions explore options to lift the rate and broaden the base (NSW Government 2020). The agreement of all states and the Commonwealth, and passage of legislation through the Commonwealth Parliament, would be required to make such changes. The application and collection of GST also tends to provoke a more visceral reaction from the community than its distribution between states.

While it is tempting to write off the prospects of change as simply too difficult, the 'no change' counterfactual is also not without cost. Demands on all levels of government continue to grow to lift service quality, availability and affordability in areas such as aged care, health care and disability services. At the same time, Australian governments face structural and geopolitical changes in the Australian and global economies will shape the ongoing efficiency and efficacy of Australia's tax system. The practice of fiscal federalism in Australia, as this chapter has attempted to outline, is that greatest change emerges at points where crisis galvanises all Australian governments to action.

The fiscal demands of the COVID-19 pandemic have led to a substantial increase in borrowing by all Australian jurisdictions. The challenge of servicing this debt while also continuing to meet their ongoing financing task will necessarily be a focus of governments in coming years, particularly for treasurers. The evidence to date is that the states have been able to continue to access domestic and international capital markets throughout the pandemic, supported by the actions of the Reserve Bank of Australia in purchasing semi-government bonds to lower funding costs and support liquidity (Finlay et al. 2020). This represents a key difference between now and the context which led to the creation of the Loans Council much earlier

in the life of the federation to regulate borrowings by the states. At that time, international capital markets were far less diversified, Australia's own financial architecture was still very nascent (with no central bank) and there were pre-existing concerns on the part of creditors about the sustainability of Australia's sovereign debt levels (McLean 2013:150).

That is not to say that the level of debt accumulated during the current pandemic is of no consequence. The level of debt is greater than Australia has faced since World War II and sustained effort will be required to service it and to rebuild the capacity to address any future economic downturns or shocks. While the Australian economy as a whole is expected to grow more quickly than interest rates, that reinforces the importance of policy choices by all jurisdictions being supportive of future growth (Brennan 2021). So far, as Australia recovers from the worst of the COVID-19 pandemic, the economy has been facing levels of unemployment not seen for decades, far below the latest estimates for the non-accelerating inflation rate of unemployment (NAIRU; Ruberl et al. 2021). In an economy that has structurally reached 'full employment', there should be a heightened focus on the opportunity cost of government interventions that do not add to the economy's productivity capacity. Of course, while that level of unemployment may be achieved, its composition—in terms of gender, geography and socio-economic characteristics—has important economic and social consequences and will necessarily be an ongoing focus for all Australian governments.

Conclusion

Recent reforms to Australia's approach to HFE and to arrangements for intergovernmental funding agreements demonstrate the capacity for Australia's system of federal financial relations to evolve rather than rupture in the face of challenges. The last year has also seen unprecedented levels of cooperation between the Commonwealth and the states. This evolution reveals a capacity that will need to be fostered as the system faces fresh challenges from issues that remain contested and the challenging economic and fiscal context that all Australian jurisdictions face in the light of the COVID-19 pandemic.

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7

Local government in Australia: An overview and strategic directions

Bligh Grant¹ and Nicholas Aroney

Abstract

Local government across Australia's state and territory jurisdictions continues to be a dynamic and varied domain of public administration reform. This chapter maps the changing number and types of local government, noting the tendencies for consolidation, regional cooperation and the emerging role of First Nations authorities before focusing on the systems of intergovernmental relations. A comparative portrait of contemporary local government finance is provided before the internal organisation of local authorities and the increasingly salient requirement for community engagement are examined. A strategic view of local government in Australia suggests that while, up until recently, an emboldened view of the role of local authorities was both touted and expected, the resurgence of the sovereign states under the response to the COVID-19 pandemic has seen local authorities returned to their traditional place in Australia's intergovernmental system, with a focus on competence and sustainability and notwithstanding variation across the federation.

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Keywords: local government; regional governance; First Nations authorities; intergovernmental relations.

1. Introduction: Nature of local governance in Australia

A comparative perspective of local governments in Australia would view them as akin to local authorities in similar federations (e.g. Canada, the US) in that they do not enjoy constitutional status at the federal level yet are nevertheless important institutions of local democracy. However, beneath this broad level of generalisation, the similarities rapidly dissipate. Local governments in Australia are responsible for a fraction of the remit of their Anglosphere cousins in North America and Britain; they are akin only to those of New Zealand in their limited role (Dollery et al. 2008). Moreover, the idea that Australian local governments are wellsprings of local democracy should be tempered by the fact that, historically, in over half the nascent colonies on the Australian continent and its adjacent territories prior to Federation in 1901, local authorities were a form of decentralised colonial authority that in many instances only took the form of partially self-governing communities reluctantly (Grant and Drew 2017a). Arguably, this has created ambivalence at the core of the understanding of what local government is and what it ought to be and varies subtly across Australia's seven local government jurisdictions.

Despite this ambivalence, local governments and their intergovernmental relations are dynamic arenas of public administration reform in the Australian federation. In providing a contemporary overview, this chapter adapts the methodological approach initiated by Garcea and Le Sage (2005). Initially, it provides an account of the structures of local governance, inclusive of (i) multipurpose local authorities, (ii) special purpose local authorities, and (iii) federally initiated regional institutions. Next, echoing recent work by Aroney and Grant (2022), it examines state–local relations by focusing on the principal authorities contained in state governments that exercise oversight of local government. Following the dictum that 'finance follows function', the chapter then provides an account of revenue and outlays for local government, comparing jurisdictions on this basis, alongside noting changes to aggregates over time (Grant and Drew 2017a). Penultimately, the chapter examines the internal organisation of local authorities and

arrangements for community engagement. The chapter concludes by asserting that a ‘maximalist’ view of a stronger role for local government in Australia has been challenged by both the problems encountered by larger local governments and the reassertion of state authority in the face of the COVID-19 pandemic.

2. Structure and structural reform of local governance

Multipurpose local authorities

Garcea and Le Sage (2005:5) offer a three-part definition of the structure of local government, namely (i) the ‘overall configuration’ of the boundaries; and (ii) the number, and (iii) the types of municipal authorities. Regarding (i) the ‘overall configuration’, providing maps of the boundaries for all the individual local governments across the Australian federation—537 in total—would burden the account provided here with no less than seven maps of the individual jurisdictions. This will be foregone, noting that links to maps for the individual jurisdictions are available in an online electronic format at the Australian Local Government Association (ALGA 2021). At a higher spatial and jurisdictional analysis level, Figure 7.1 depicts the number of local governments within the six sovereign states and the Northern Territory (the main other territory, the Australian Capital Territory, does not have any lower-level governments).

The cardinal point about Figure 7.1 is that Australia has seven local government jurisdictions. Like their counterparts in other federal systems (e.g. the US, Canada), local governments in Australia are creatures of state, not Commonwealth (or central), law and, unlike in other polities (e.g. China), the major metropolitan centres or capital cities (e.g. Sydney, Melbourne) are not placed on a plane above their smaller local government counterparts (although both historically and now, as discussed further below, these metropolitan capitals have been constituted under separate legislation at the state level—see Grant and Drew 2017a:15–82).

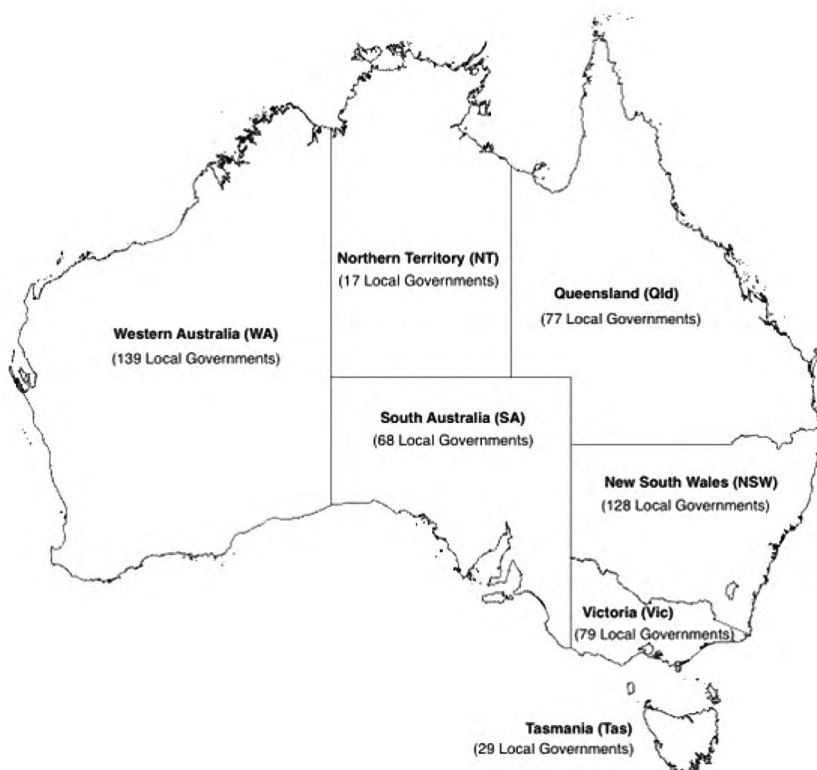


Figure 7.1: Australia: Local government jurisdictions and number of local governments.

Source: Adapted from Christensen and McQuestin (2019).

Moreover, across the jurisdictions, there is no consistent relationship between the number of local governments per state/territory jurisdiction on the one hand and the population size of those jurisdictions on the other hand. This is demonstrated in Figure 7.2.

Examining Figure 7.2, the overall trend is one of an increase in the size of the population per local government jurisdiction—in all jurisdictions—from under 10,000 in 1910 to an average of 47,834 in 2020. In essence, local governments are five times larger by population than they were 100 years ago. However, there is a high degree of variability across the jurisdictions: the average population size for the three most populous jurisdictions (NSW, Victoria and Queensland) is 71,499; for the four least populous jurisdictions (South Australia, Western Australia, Tasmania and the Northern Territory) it is 18,287.

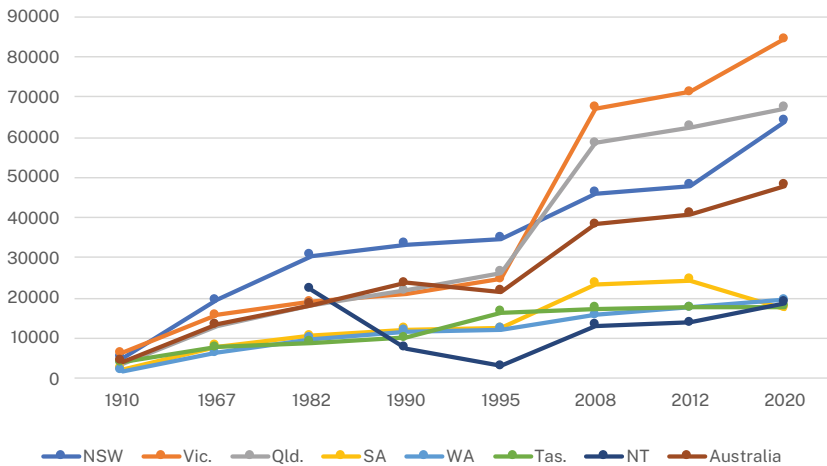


Figure 7.2: Australia: Population per local area by jurisdiction, 1910–2020.

Source: Adapted from Grant and Drew (2017a:361).

Additionally, the number and size of local governments—measured by both population and geographical area—has historically been a consistent domain of contentious reform processes across the jurisdictions (see, for example, Ryan et al. 2016). Territorially, the increase in size has been introduced by state and territory governments (not local governments themselves, with few exceptions—see Grant et al. 2012; Tiley 2012) through programs of amalgamation, which has been either encouraged or, more commonly, forced upon local governments, usually with some form of financial incentive attached. These episodes of consolidation are so routine that Drew and Dollery (2014:129–30) have provided an ideal-type characterisation of the process:

As a first step, state politicians assert that local authorities are ineffective as a consequence of their sub-optimal population size and that this significantly impedes the economic prospects of the state in question. An ‘independent’ commission is then established in stage two to recommend policy prescription for remedying the situation. Stage three entails the release of its preliminary report with draft findings for public comment, almost invariably calling for compulsory council consolidation, followed by a period of ‘public consultation’, and then a final report. Prescribed forced amalgamations are then executed, often swiftly to minimize opportunities for adversaries to marshal effective opposition. It is noteworthy that no subsequent post-amalgamation assessment of compulsory mergers is ever undertaken.

Prima facie, providing this account of structural reform processes in Australian local government might appear to be delving into too much of the ‘cut and thrust’ of state–local government relations. It is, however, important to emphasise that these programs of structural reform, often engendered by an ‘independent’ commission (see Grant et al. 2015a), have been a perennial and consistent feature of local government and state–local government relations in Australia, the salience of which is difficult to overstate, particularly for those working in and around local government, and even when they only involve the threat of amalgamation (again, see Ryan et al. 2016).

Returning to Garcea and Le Sage’s (2005:5) three-part definition of the structure of local government to consider (iii) the ‘types’ of local government, historically, there have been two main types across all the Australian jurisdictions: municipalities (city or town local governments) and shires for regional and rural areas (akin to counties in the US). Capital cities should be added to these two main types as, historically and now, they have been constituted under their own Acts. They have both a slightly differentiated function (typically, their statutory remits include a greater role for intergovernmental relations) and internal structure (the mayor has more authority).

This historically locatable and relatively simple three-part typology of local government types (i.e. municipalities; shires and cities) has become considerably more complex in the last half-century, principally due to the Commonwealth’s financial assistance grants (FAGs) scheme, legislation for which was initially introduced in 1975 then renewed under the *Local Government (Financial Assistance) Act 1995* (Cth). The federal government has introduced the classificatory system outlined in Table 7.1.

Table 7.1: Australian Government Department of Infrastructure and Regional Development (DIRD): Australian classification of local governments.

Step 1	Step 2	Step 3	Identifiers	Category
URBAN (U)				
Population more than 20,000 OR If population less than 20,000,	CAPITAL CITY (CC)	Not applicable		Urban Capital City (UCC)
	METROPOLITAN DEVELOPED (D) Part of an urban centre of more than 1,000,000 or population density more than 600 per square kilometre	SMALL MEDIUM LARGE (L) VERY LARGE (V)	up to 30,000 30,001–70,000 70,001–120,000 more than 120,000	Urban Developed Small (UDS) Urban Developed Medium (UDM) Urban Developed Large (UDL) Urban Developed Very Large (UDV)

7. LOCAL GOVERNMENT IN AUSTRALIA

Step 1	Step 2	Step 3	Identifiers	Category
EITHER				
Population density more than 30 persons per square kilometre OR 90 per cent or more of the local governing body population is urban	REGIONAL TOWNS/CITY (R) Part of an urban centre with population less than 1,000,000 and predominantly urban in nature	SMALL MEDIUM LARGE (L) VERY LARGE (V)	up to 30,000 30,001–70,000 70,001–120,000 more than 120,000	Urban Rural Small (URS) Urban Rural Medium (URM) Urban Rural Large (URL) Urban Rural Very Large (URVL)
	FRINGE (F) A developing LGA on the margin of a developed or regional urban centre	SMALL MEDIUM LARGE (L) VERY LARGE (V)	up to 30,000 30,001–70,000 70,001–120,000 more than 120,000	Urban Fringe Small (UFS) Urban Fringe Medium (UFM) Urban Fringe Large (UFL) Urban Fringe Very Large (UFV)
RURAL (R)				
A local governing body with population less than 20,000 AND	SIGNIFICANT GROWTH (SG) Average annual population growth more than three per cent, population more than 5000 and not remote	Not applicable		Regional Significant Growth (RSG)
Population density less than 30 persons per square kilometre AND Less than 90 per cent of local governing body population is urban	AGRICULTURAL (A)	SMALL MEDIUM LARGE (L) VERY LARGE (V)	up to 2,000 2,001–5,000 5,001–10,000 10,001–20,000	Rural Agricultural Small (RAS) Rural Agricultural Medium (RAM) Rural Agricultural Large (RAL) Rural Agricultural Very Large (RAV)
	REMOTE	EXTRA SMALL(X) SMALL MEDIUM LARGE (L)	up to 400 401–1,000 1,001–3,000 3,001–20,000	Remote Extra Small (RTX) Remote Small (RTS) Remote Medium (RTM) Remote Large (RTL)

Note: LGA = local government area.

Source: Adapted from DIRD (2017:217).

Examining Table 7.1, the fundamental split between ‘urban’ and ‘rural’ (at left) has been maintained; nevertheless, from there (moving right), local government areas (LGAs) are organised around (for instance) whether they are metropolitan or regional urban centres or, in the case of rural councils, whether they are experiencing ‘significant growth’. The result is 22 categories, with account also given to population size, which is a principal metric in the methodology for deciding the moneys the Commonwealth provides to each local government (i.e. on a per capita basis). This complex classification system has been devised by the Commonwealth (i.e. central) government in an attempt to ensure the equitable distribution of FAGs to individual local governments ‘through’ the state and territory governments—under the Australian Constitution, it remains unconstitutional for the federal government to directly fund local governments despite two failed attempts at constitutional reform to address this issue (see Grant and Drew 2017a:102–15). Yet, these grant moneys represent a small proportion of overall local government revenue, albeit a proportion that varies in importance depending on the own-source revenue base of particular local governments. Otherwise stated, the financial link between federal and local governments is small and politically contested (see Grant and Drew 2017a:102–15).

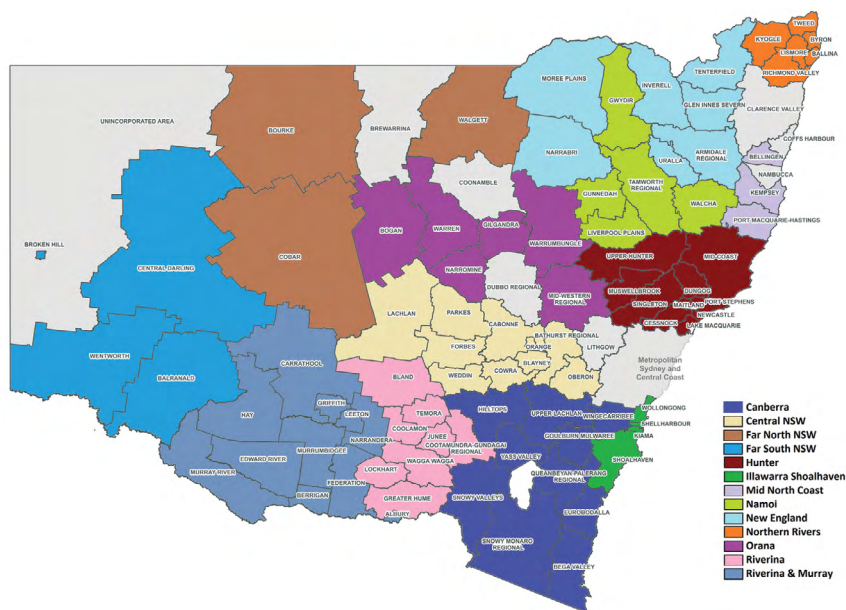


Figure 7.3: NSW JOs across LGAs.

Source: OLG (2021a).

Still with Garcea and Le Sage's (2005) 'type' of local governments, but moving to examine additional governance arrangements (i.e. those that are not constituted by direct representational arrangements), local authorities created under state statute have historically cooperated in regional configurations in the form of regional organisations of councils and strategic alliances (SAs) (see Dollery et al. 2012). The current iteration of regional cooperation in NSW—Joint Organisations (JOs)—is depicted in Figure 7.3.

For its part, the NSW Office of Local Government (OLG 2021a) promotes JOs as engendering a refreshed era of inter-municipal regional cooperation aimed at achieving economies of scale through joint service provision and regional identity and belonging. The realities are that, like their predecessors, JOs are only as strong as the councils and individuals involved and will meet with success, or otherwise, accordingly (see Dollery et al. 2012).

For planning purposes (land use, transport, health services), several state jurisdictions have also created metropolitan-wide authorities that are appointed rather than stemming from the democratic authority enjoyed by local government. An example of these types is the Greater Sydney Commission (GSC). Introduced in late 2015, the GSC has both broad and deep planning powers across the Sydney metropolitan region, justified, at least in part, by the rhetoric of pursuing a 'global city' agenda (see Grant and Drew 2017a:383–407). Nevertheless, the introduction of such instruments (again, both historically and now—see Grant et al. 2015b) has always been controversial as they override the authority of local governments (see Vogel et al. 2020:135–36).

Special purpose authorities

Alongside the multipurpose local authorities, special purpose authorities have had a latent but continued presence as part of Australia's local governance. For instance, the NSW Office of Local Government (OLG 2021b) lists ten 'County Councils' that are in place to manage a specific land use matter (weeds, pest-control) across several adjacent local government jurisdictions. For its part, Western Australia provides for 'regional local governments' or horizontal shared services organised for a specific service, such as waste management or advocacy, of which there are presently nine (see WALGA n.d.). Many of these single-purpose authorities have subsequently been incorporated into multipurpose authorities

through amalgamation processes; however, this is not always the case. For instance—and perhaps the most salient example of a special purpose authority nationally—the Outback Communities Authority (OCA) in South Australia administers the remote communities of that state. The OCA (2014) describes itself as ‘a hybrid between local government and community self-management’.

The second type of special purpose local authority in Australia can be broadly classed as ‘First Nations local authorities’. Since the 1970s, legal recognition of different types of First Nations land ownership has taken place across Australia. This has been most marked in NSW, where the *Aboriginal Land Rights Act 1983* (NSW) provides for Local Aboriginal Land Councils (LALCs); a peak body thereof is the NSW Local Aboriginal Land Council (NSW ALC). This office administers 116 LALCs in NSW (compared with 128 standard local authorities) organised across nine regions (see NSW ALC 2020), as depicted in Figure 7.4.

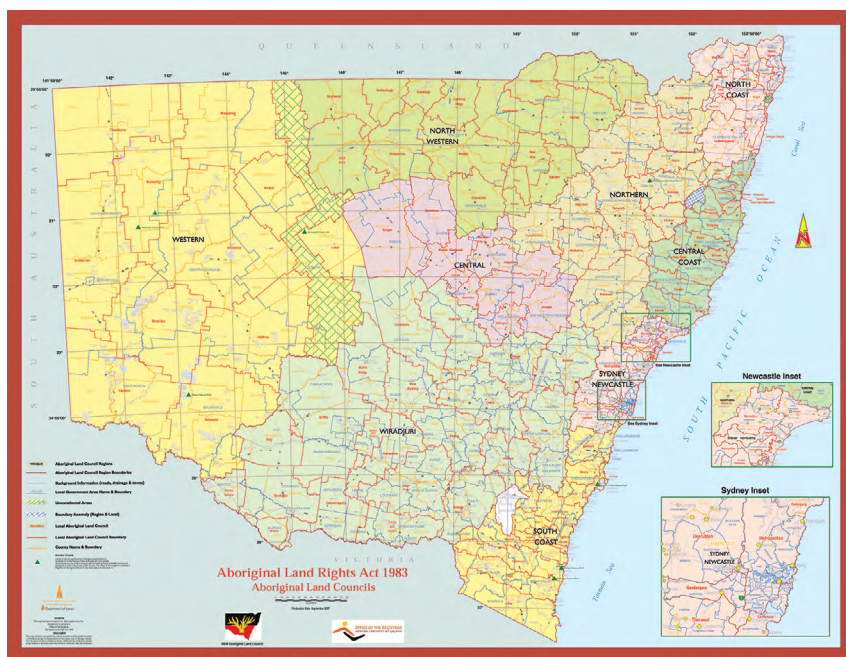


Figure 7.4: NSW LALCs and Regional Areas.

Source: NSW ALC (2021).

The *Aboriginal Land Rights Act 1983* (NSW) specifies that LALCs are organisationally akin to standard local authorities, but with a narrow remit focused on land ownership and management. Specific state legislation for these types of authorities, albeit with a far broader remit, also exists in South Australia (see, for example, the Anangu Pitjantjatjara Yankunytjatjara Land Council (APY 2020)) and in Western Australia (see Ngaanyatjarra Council 2011). In Victoria, these bodies are constituted as ‘Registered Aboriginal Parties’ under the *Aboriginal Heritage Act 2006* (Vic) (see, for instance, Barengi Gadjin Land Council 2020), while in Queensland, Aboriginal Shire Councils, of which there are 12, are incorporated under the *Local Government Act 2009* (Qld) (see LGAQ 2020). First Nations authorities have also been established under Commonwealth legislation, specifically the *Native Title Act 1993* (Cth) and the *Native Title (Amendment) Act 1998*, whereby they are recognised as native title representative bodies (NTRB). In some jurisdictions, particularly Queensland and Western Australia, these NTRBs form a layer of governance over large areas, intersecting with postcolonial local governments. For instance, the North Queensland Aboriginal Land Council (NQLC n.d.) ‘has a representative area of 943,300 km² across North Queensland, with approximately 411,164 km² of this being land’.

Federally initiated regionalism

As much as local governments are creatures of their respective states and the Northern Territory, it should be recognised that the federal government has, at various times, sought to intervene in regional issues by placing a layer of administration at the regional level (see Grant and Drew 2017a). The present iteration of this regional intervention is Regional Development Australia (RDA) committees, as depicted in Figure 7.5.

The Rudd Labor Government established RDA committees in 2009 ‘as a collaborative partnership between the Commonwealth, states and territory governments’ (Tiley 2013:23). They comprise 52 region and state-based committees, and the network is funded by the federal Department of Infrastructure, Transport, Regional Development and Communications. RDAs were not abolished following the demise of the Rudd Labor Government in 2013 and survived under successive Coalition (conservative) administrations and the current Labor Government. However, this survival is probably due to their lack of comparative importance. Their funding is shallow, and their principal function is to provide ‘critical intelligence back to the Australian Government’ from the regions (RDA 2020). In October 2020, they received a revived charter (RDA 2020), but the fact that this charter is 153 words in its entirety speaks volumes about the importance of RDAs.

DILEMMAS IN PUBLIC MANAGEMENT IN GREATER CHINA AND AUSTRALIA



Figure 7.5: RDA National Network.

Source: Adapted from RDA (n.d.).

3. Intergovernmental relations

One way of examining Australia's main institutional framework for state-local intergovernmental relations is by example. In this instance, NSW has been chosen as the basis for discussion. The principal institutions of state-local relations in NSW are set out in Table 7.2.

Historically, there was a dedicated minister *and* a department of local government in each jurisdiction across all of Australia's local government jurisdictions. However, in the last 30 years, coinciding with almost continual processes of reorganisation of the machinery of government at the state/territory level (usually coinciding with changes in government), this has changed, with ministerial responsibility for local government now frequently housed within a conglomeration or 'umbrella' department. As represented in Table 7.2, Column 1, this is currently the case in NSW, where the Office of Local Government falls under the Department of Planning, Industry and Environment (DPIE). In other jurisdictions, bureaucratic responsibility for local government will, from time to time, fall within a broader planning or associated department—for instance, presently

Table 7.2: NSW: Principal institutions of state–local relations.

Principal ministerial responsibility	First Nations authority	Authority for boundaries	Finance authorities	Audit authority	Elections	Investigative/integrity/complaints authorities
Minister for Local Government; Office of Local Government of NSW Department of Planning, Industry and Environment	Aboriginal Affairs	Local Government Boundaries Commission	NSW Local Government Grants Commission; TCorp NSW; Independent Pricing and Regulatory Tribunal	Audit Office NSW	NSW Electoral Commission	Independent Commission Against Corruption; Ombudsman NSW; Information and Privacy Commission

Sources: Aboriginal Affairs (2020); Audit Office of NSW (n.d.); DPIE (n.d.); ICAC (2019); IPART (n.d.); IPC (n.d.); Local Government Boundaries Commission (2021); Local Government Grants Commission (2021); NSW Electoral Commission (n.d.); OLG (2021c); Ombudsman NSW (n.d.); TCorp (2021).

in South Australia, the Office of Local Government falls within the Department for Infrastructure and Transport (DIT n.d.). Alternatively, responsibility for local government will rest with the Department of Premier and Cabinet, as it currently does in Tasmania (see DPC n.d.). The overall observation here is that there is tension between local government conceived as a political institution on the one hand and an administrative institution on the other (see Grant and Drew 2017a:401–03).

Column 2 of Table 7.2 denotes a feature of local government in NSW that is atypical, namely a department of Aboriginal Affairs that has a strong association with local governance in the form of LALCs, described above. Column 3 denotes the NSW Local Government Boundaries Commission, housed within the Office of Local Government. Generally, all jurisdictions have a boundaries commission. However, in some instances, the relevant functions are incorporated under the respective electoral commissions responsible for administering local government elections (see Column 7). At present, Victoria operates this way (VEC n.d.). Column 4 denotes the finance and regulatory authorities. In NSW, the Local Government Grants Commission is responsible

for administering the allocation of FAGs from the federal government under the *Local Government (Financial Assistance) Act 1995* (Cth) (Local Government Grants Commission 2021). While these funds do not make up a large percentage of local government finance, they join a small quantum of funds transferred from the state to local governments and are federally mandated. As such, the other jurisdictions have similar commissions (see, for instance, WALGGC 2020). The other institutions listed in Column 5 of Table 7.2 are TCorp NSW, the arm of NSW Treasury that is responsible for loan finance, investment and market analysis for the NSW Government generally, including local government (TCorp NSW 2021), and the Independent Pricing and Regulatory Tribunal (IPART), which monitors and sets prices for some government services, inclusive of rates (land tax) and forms the primary tax revenue source for local governments (see IPART n.d.). All jurisdictions have a similar finance authority that has interactions with local government (see, for instance, Queensland Treasury Corporation n.d.; Western Australian Treasury Corporation 2021). However, not all jurisdictions have an IPART equivalent; other state ancillary bodies undertake these functions in other jurisdictions.

All jurisdictions have an audit authority, as depicted in Column 5. In some instances, these authorities' responsibilities for local government go beyond financial monitoring. For example, the Victorian Auditor-General's Office (VAGO) undertakes the pricing regulation that IPART does in NSW for rates, and also oversees performance reporting, the regulation of shared services (discussed further below) and the investigation of complaints of sexual harassment (see VAGO 2021). As in most states, investigative functions in NSW are undertaken by bodies dedicated to carrying out such responsibilities across the state, in particular the Independent Commission Against Corruption (ICAC 2019) and the ombudsman (see Ombudsman NSW n.d.).

4. Local government finance and function

As noted in the introduction, comparatively, local governments in Australia have enjoyed a very limited remit, akin only to New Zealand when viewed internationally (see Dollery et al. 2008). Finances for local government reflect this. Land tax ('rates' in Australian parlance) is the main source of tax revenue for local government but comprises only 3.6 per cent of all taxes raised by all tiers of government, which is small compared to similar polities

(Dollery et al. 2013). In aggregate, local government raises around 90 per cent of its own revenue through a combination of tax, fees and charges. However, ‘individual councils have differing abilities to raise revenue’ and ‘the differences between urban, rural and remote councils, including population size, rating base and ability to levy user charges affects the ability of a council to raise revenue’ (DIRD 2017:4). In essence, the divide is between urban councils with relatively high populations and population densities wherein demand for land is high, and non-metropolitan councils where population, density and demand are low. This renders the latter type of council heavily reliant on intergovernmental transfers. Aggregate revenues for local government in Australia for 2020–21 are presented in Figure 7.6.

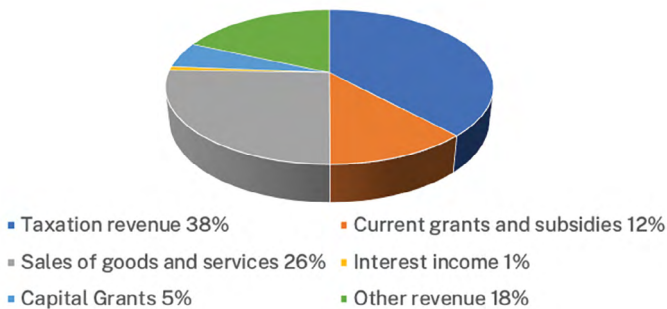


Figure 7.6: 2020–21 Australian local government revenue (%) by category.

Note: Percentages rounded.

Source: ABS (2022a).

Local governments accrue 62 per cent of their revenue from sources *other than* taxation—including 26 per cent from sales of goods and services (inclusive of charges for solid waste collection, parking and development contributions for infrastructure, but not charges for water and wastewater, which are classified separately as taxes) and 18 per cent from ‘other revenue’. This points to the fact that local governments are very much ‘businesses’. Aligned with their asset base, Figure 7.6 also indicates that local governments accrue significant income from interest—1 per cent overall.

While Figure 7.6 shows the average spread of revenue resources across jurisdictions, these vary across the jurisdictions (Table 7.3) and between urban and rural local governments within jurisdictions.

Table 7.3: 2020–21 Australian local government revenue by jurisdiction, type (%) and per capita (AUD million).

	NSW	Vic	Qld	WA	SA	Tas	NT
Tax revenue (%)	29	47	33	52	61	47	29
Current grants and subsidies (%)	15	16	5	10	8	14	20
Sales (%)	29	16	34	21	16	22	22
Interest (%)	1	1	1	1	1	1	1
Capital grants (%)	3	3	10	8	5	5	7
Other (%)	23	19	18	8	9	12	21
Total revenue (\$m)	18,067	12,346	13,306	4,874	2,775	930	498
Total pop. (2021; '000)	8,186.8	6,643.1	5,240.5	2,685.2	1,772.8	540.8	245.9
Local government revenue per capita	\$2,207	\$1,859	\$2,539	\$1,778	\$1,565	\$1,720	\$2,025

Note: Percentages rounded.

Source: ABS (2022a, 2022b).

Table 7.3 demonstrates that tax revenue is comparatively low for both NSW and the Northern Territory; tax is comparatively high for Victoria and South Australia, both of which use capital improved value (CIV) as the base of their rating system (a recent review of rates in NSW shied away from implementing this, despite recommendations from the NSW IPART—see NSW Government 2020). Yet it is also comparatively high for WA and Tasmania (which do not use CIV). Overall, the more populous jurisdictions accrue significant moneys in aggregate compared to the smaller ones, and there is some variation between the jurisdictions on the basis of local government revenue per capita (with SA at AUD1,565 the lowest and Queensland at AUD2,539 the highest). Moreover, there is no consistent relationship between jurisdiction size per capita and local government revenue per capita.

Turning to expenditure, Figure 7.7 provides the breakdown in aggregate.

Examining Figure 7.7, two of the components—23.9 per cent for transport and 9.6 per cent for housing and community amenities—are, in essence, infrastructure and property services, with the former comprised largely of local roads maintenance and the latter—decidedly *not* social housing—rather infrastructure costs for new areas, including street lighting and curbing and guttering. Property services such as solid waste collection fall into the category of general public services (22 per cent). As outlined in Table 7.4, there are significant differences in expenditure patterns.

For example, the Northern Territory and Queensland are outliers with respect to ‘general public services’ at 41 and 29 per cent, respectively (the average for the other jurisdictions is 17.8 per cent). Victoria’s local governments spend more than the others on social protection (10 per cent versus an average of 3.6 per cent for the other jurisdictions). The larger jurisdictions by area—WA, Queensland and South Australia—spend more on transport on average (30.6 per cent) than the others (18.5 per cent).

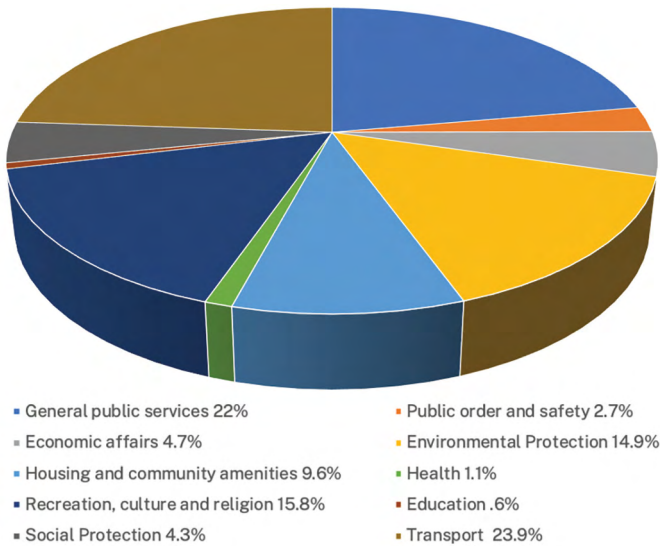


Figure 7.7: 2020–21 Australian local government expenditure (%) by category.

Note: Percentages rounded.

Source: ABS (2022a).

Table 7.4: 2021–22 Australian local government expenditure by jurisdiction, type (%) and total (AUD million).

	NSW	Vic	Qld	WA	SA	Tas	NT
General public services	25%	18%	29%	16%	6%	24%	41%
Public order and safety	4%	2%	2%	3%	3%	1%	4%
Economic affairs	5%	5%	4%	3%	7%	5%	4%
Environmental protection	20%	16%	12%	5%	19%	14%	4%
Housing and community amenities	9%	7%	14%	7%	10%	9%	13%
Health	1%	2%	1%	1%	3%	2%	1%
Recreation, culture and religion	15%	19%	12%	17%	25%	17%	13%

	NSW	Vic	Qld	WA	SA	Tas	NT
Education	1%	1%	0%	0%	0%	0%	1%
Social protection	3%	10%	1%	3%	5%	3%	7%
Transport	18%	19%	26%	44%	22%	26%	11%
Total expenses	13,008	9,808	10,866	5,731	2,412	794	489

Note: Percentages rounded.

Source: ABS (2022a).

From the perspective of international comparison, the outlays for welfare functions (health and education), policing (public order and safety) and economic affairs are very small, reflecting the restricted remit of local governments in Australia (see Dollery et al. 2008).

5. Organisation and community engagement

Internal council organisation

Turning now to examine the internal organisation of councils, from 1989 to 2008, all the local government Acts were substantially rewritten or ‘modernised’ with the goal of introducing what has been described as a ‘separation of powers’ between the elected officials on the one hand and the operational side of the organisation, led by non-elected officials, on the other, broadly mirroring the separation of politics from administration within the Commonwealth and state/territory governments. For their part, Grant and Drew (2017a:296–97) argue that the applicability of the ‘separation of powers’ doctrine to local government in Australia is somewhat misplaced; rather, the division between elected and appointed officials ought to be understood as a principal–agent relationship where the check on authority is present but where the two sides are obliged to operate collaboratively. Nevertheless, one of the main strategic goals of the new Acts was to introduce a restraint on local elected authorities simply directing the organisation to serve their own interests and to instead take a broader strategic role.

There is some variation in the models for local government leadership across Australia’s jurisdictions. Broadly speaking, the mayor–council model (i.e. where the mayor is elected at large) predominates in the capital cities and some jurisdictions (e.g. Tasmania, SA, WA) and is the only form used in Queensland. In other jurisdictions (NSW and Victoria), the council–

manager, or ‘cabinet’, model (i.e. where mayors are elected from their councillor colleagues) predominates. Conjecture about the merits or otherwise of either model has been a feature of academic and popular debates about local government reform (see Grant and Drew 2017a:309–20), yet political leadership arrangements in local government across Australia can still be characterised as non-professional (overall, elected officials are part-time and remunerated accordingly) and non-party-political (see Dewhurst et al. 2018). This contrasts with the operational side of local government, whose appointed executives are well remunerated but generally work on fixed-term contracts and form somewhat of a ‘precariat’ class due to this (see Smith-Ruig et al. 2016).

Beneath these arrangements for leadership organisationally, local governments are partitioned into three or more main divisions—for example, Corporate and Governance, Works and Civil and Planning, Environment and Community—with larger councils disaggregating these functional work areas further and ‘special interest’ units cropping up according to prevailing policy imperatives and changing funding streams (e.g. ‘smart cities’ units; ‘bushfire recovery’ units). These partitions reflect the traditionally prominent role played in local authorities by two professions in particular—town planners and civil engineers—that their respective peer associations have long represented at both the state and national levels.

Requirements for community engagement in planning processes

To the above matrix of council organisation, there is now solid evidence of change to the mix of professions that are a consistent feature of the local government landscape. Spurred by an ideational impetus for greater democratisation of local government (i.e. away from propertied local political elites *and* the professions that attended to their interests), statutory requirements for community engagement as part of planning processes have now been embedded across the jurisdictions to varying degrees (see Grant and Drew 2017a:217–64). For example, in NSW, the *Integrated Planning and Reporting Framework* incorporates several types of ‘plans’ (which are, in fact, strategic policy statements aligning to various scales—state and/or regional) generated by the state government. These form the context within which local governments undertake their own mandatory planning, including a 10-year ‘Community Strategic Plan’ which is required to be developed using community engagement, alongside a ‘Delivery Program’

and an ‘Operational Plan’ that contains more financial information, as informed by a ‘Resourcing Strategy’, offering the state government some assurance as to the solvency of each council (OLG 2022).

Perhaps a high point for the requirement of these types of processes was witnessed in 2020, with the Government of Victoria introducing compulsory ‘deliberative engagement’ at the local government level—a requirement that is by no means unproblematic for particular types of councils in that jurisdiction, many of whom indicated that they thought it was an ill-founded idea in their submissions to the process (Savini and Grant 2020). Nevertheless, the overall point is that these types of processes are now embedded and have led to the commercialisation, if not professionalisation, of community engagement (see Christensen and Grant 2020).

6. Conclusion

Stepping back from this detail and taking a more strategic and national perspective, it is instructive to recall the (then) Abbott federal government’s ill-fated attempt to reform Australia’s intergovernmental relations in its white paper on *The Reform of the Federation* (PMC 2014). At the time, Grant, Ryan and Kelly (2016) lamented that reforms to local government and its intergovernmental relations were all but wholly ignored as part of this putative reform process. Confronted with this, they posited three possible ‘strategic futures’ for local government in Australia’s federation. The first scenario was the ‘minimalist’ approach, in which local government would accept its place and role, tucked firmly within the authority of the state/territory governments *and* be duly obedient to them. According to Grant, Ryan and Kelly (2016), this scenario did not discount processes of reform: local governments could still busy themselves with ensuring better engagement with their communities and achieving internal efficiencies and equities. However, contemplating any paradigmatic shift in favour of a broader role for local government would be hubris and end in disappointment and—worse—a loss of face for the sector.

The second scenario was the diametric opposite—‘maximalist’ local government. In this scenario, and against the nature of many in the local government sector itself (particularly elected executives), local governments would embrace consolidation to become geographically larger (in both urban and regional areas), more financially powerful (inclusive of increased

own-source revenue), more organisationally sophisticated and more ideationally grounded: larger regional local governments, subsuming regional governance structures, would succeed in making a play for the hearts and minds of their populations, ‘shape places’, become ‘the local state’ administratively and engender local regional politics (Hastings et al. 2016).

The third scenario—‘optimalist’ by name—would see a middle path. Here, there would be no pretensions to empire-building or seriously challenging for ideational space; yet local government might still incrementally increase both the breadth and depth of its remit, particularly around ‘services to people’ (childcare, aged care, the structurally disadvantaged); it would still retain enough capacity to respond to local needs and create public value through its ‘wisdom of place’, yet still be the local regulator. Therefore, it would occasionally fall foul of its overseeing state/territory government, but government is not trigonometry.

For their part, Grant, Ryan and Kelly (2016) argued for the ‘maximalist’ approach *and* foresaw it as a likely scenario, but this is certainly not the case only six years on. Why? First, recent experiments with ‘maximalist’ local government, which date from the amalgamations in Queensland in 2007–08 through to the amalgamations in NSW in 2017–18, have faltered on two palpable grounds. Technocratically, the results have been, at best, mixed, with the poor performance of some larger local governments seriously undermining the ‘bigger is better’ theory due to a lack of financial responsibility and electoral responsiveness. In fact, even one of the more vocal proponents of the model has recanted it (see Sansom 2020). More poignantly, recent consolidation has proven as politically problematic for state and territory governments as it has historically (again, see Ryan et al. 2016), to the extent that episodes of de-amalgamation have occurred in both Queensland and NSW (see, for instance, de Souza et al. 2014; Drew and Dollery 2015; Young and Halstead 2021), such that further rounds of amalgamation are unlikely to be entertained in other jurisdictions.

Second, the pandemic arising from the COVID-19 virus has seen a reassertion of the legitimacy of state and territory governments at the expense of the federal government. While this has played out at a largely rhetorical level (save the closure of state borders) rather than any fundamental rearrangement of real authority (particularly financial), to a certain extent, the state–local government nexus is a zero-sum game. State and local governments cannot rise together due to their relationship’s necessarily oppositional and hierarchical nature. Yet local governments can

rise in the comparative state–local nexus if state governments are faltering and if a federal (Labor) government is agreeable. COVID-19 has dealt any putative rise for these reasons as difficult to envisage: the state premiers—and state services—achieved a far more visible presence in responding to COVID, and while this may fade, it will do so over time.

The third point, a corollary to the second, is that state and territory governments—and indeed, the Commonwealth—do have the capacity to organise regionally *without* local government. This can occur, for instance, through the establishment of ‘local’ (in effect, super-regional) boards for particular types of service delivery, especially health and disaster recovery (see Grant and Drew 2017b).

The fourth challenge to the maximalist creed comes, perhaps ironically and unfortunately, with any increased success that First Nations local authorities enjoy. As laudable as that success might be in terms of redressing the oppression and political alienation of First Nations peoples historically, ‘the local’ can only take up so much space in the political mix and, as such, the extent to which these authorities enjoy success will, in all probability, come at the expense of multipurpose authorities. It need not be this way, but it most likely will be this way in the sense that other local statutory authorities have historically challenged the authority of local government.

Local government in Australia, already too big to be minimalist, will almost certainly follow the middle path. Yet this will only be optimalist if it continues to improve itself and, as such, be broadly and consistently defensible to its communities and—most importantly—to its overseeing governments.

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Part 2: Budgeting and financial management

Several Dialogue workshops have explored recent developments in Australia, the PRC and Taiwan to improve budgeting and financial management and to enhance both performance and accountability.

The 2015 workshop entirely dedicated to this topic led to a book, *Value for Money*, published by ANU Press (2018), which demonstrated the shared interest in performance budgeting, linking resources allocation to policy objectives and performance targets, and also in promoting performance in budget implementation and accountability through evaluation. While Australia has been pursuing this approach since the 1980s (via ‘managing for results’) and steadily enhanced its framework, it still faced challenges in getting politicians and not just bureaucrats to focus on performance. Reforming financial administration to enhance performance and managerial accountability is much more recent in both the PRC and Taiwan, and for both jurisdictions such reforms can only be pursued after more fundamental governance changes—‘opening-up’ in the PRC and full democratisation in Taiwan—have become more settled. Both jurisdictions have nonetheless shown interest in moving beyond post-hoc financial reporting and been actively reviewing international experience, looking to adapt it to their own institutional frameworks.

The 2018 workshop complemented the earlier one by exploring how institutional structures might also be used to enhance performance and accountability. A second book, *Designing Governance Structures for Performance and Accountability*, was published by ANU Press in 2020. While the book again demonstrated shared interest in reform drawing on international experience, including to improve citizens’ engagement and draw on external capacity, the differences in the institutional frameworks have led to quite different approaches in each jurisdiction. Australia, with its Westminster-style separation of politics and administration within the executive, uses an array of organisational governance structures involving different degrees of independence from the political executive depending on the function involved. Taiwan also distinguishes between politics and administration but does so within its unique five ‘separation of powers’ structure of government (independent arms of administration or ‘Yuans’) rather than the standard distinction between the executive, legislature and judiciary more commonly used in democracies. The PRC, of course, does not believe in or intend to separate politics from administration: rather the roles are conterminous and the CCP (Chinese Communist Party) plays an active role across all arms of government (and beyond).

In this section, the first two chapters set out the context today in which budget and financial management reform is now proceeding.

Christine Wong highlights the scale of the reform task in China since the ‘opening-up’ began in 1978. When Xi Jinping took over the leadership in 2013, an ambitious plan for comprehensive reform of the fiscal system was set out, to be completed by 2020. The first phase began in 2014 with a new Budget Law which, over the following six years, has extended budget control over all fiscal resources, improved budget transparency and strengthened monitoring and supervision. The second phase, focusing on tax reform, has successfully reformed the value-added tax introduced in 1994, but it has not delivered additional revenues to local governments which are struggling to meet their expenditure responsibilities. The third phase, focusing on intergovernmental fiscal reform, has also faltered. With economic growth slowing and COVID-19 debt pressures, local government is being squeezed from all sides, threatening to undermine the government’s goals of improved public services and rebalancing the economy towards consumption.

Henry Ergas and **Joe Branigan** explore Australia’s financial management challenges post COVID-19. The pandemic shut down the Australian economy and ended Australia’s almost three decades record run of GDP growth. But Australia’s past reforms and generally prudent budgeting delivered considerable resilience and the capacity to adjust to shocks. While some questions remain as to whether Australia ‘overdid’ its response to the pandemic, there was a strong case to compensate for the restrictions imposed by government actions to contain the pandemic, and the fiscal expansion did result in a V-shaped recession in 2020 (though the impact of COVID was also softened by continued high overseas demand for Australian resources and bulk commodities). There is a need now to return public policy to more careful budgeting and financial management, particularly if Australia is now on a slower growth trajectory. Among the areas needing attention, Ergas and Branigan highlight Australia’s weakness in assessing major infrastructure investments.

Meili Niu and **Peipei Zhang** describe how China’s Budget Performance Management (BPM) system has evolved since it was first initiated in 2003. While in the last two years BPM has begun to explore performance in terms of outputs and outcomes, it has not so far been a permutation of the Western version of performance budgeting. Instead it has focused on establishing systematic budgeting control over line agencies at each level of government and using evidence to assess how well this control is operating. In essence,

China is building the 'basics' before attempting to establish a performance budgeting system, consistent with the advice Allen Schick provided to developing countries in the late 1990s (Schick 1998). Particularly interesting in this study is the way China uses experimentation at local government levels (particularly the city level) to develop and enhance the BPM.

Jie Gao also shows how the PRC has drawn on but greatly adapted international interest in performance management. She examines the performance management system in the PRC, highlighting how the 'target responsibility system' (TRS) is entwined with cadre management, rather than organisational or program performance per se, and is not linked to the budget or financial system. The TRS embraces performance in achieving both program (or policy) targets such as economic growth, environmental goals and education participation levels, and political targets such as social order and stability and party building. Gao explores the way the system has mixed principal-agent and stewardship approaches, the former seeming to be receiving higher priority under an almost contractual arrangement before Xi Jinping; Xi's greater emphasis on stewardship, however, is premised on adherence to party ideology and gives more weight to party building. (**Shuo Chen** and **Hon Chan** explore further China's attempt to develop a 'political meritocracy' in the next section on the civil service.)

Wendy Jarvie examines how the Australian Department of Foreign Affairs has used evaluations to support its financial management, particularly for its foreign aid budget. The department's approach was based on a framework established by the former AusAID organisation, which had a degree of independence from ministers. It made use of independent external expertise together with considerable internal effort. When AusAID was absorbed by the department, the evaluation arrangement initially continued with support from senior departmental management. However, this was not matched by support at the political level and in recent years, Jarvie reports, independent involvement in evaluations has ceased, resources for evaluation have reduced and the systematic approach to evaluation has been put in jeopardy. Such a lack of political commitment to evaluation has been evident elsewhere in Australian government but now is evident in a department with one of the best records in objective evaluation, reflecting the broader politicisation of the public service described by **Andrew Podger** and **John Halligan** in the next section.

Key conclusions to draw from these chapters include:

- The continuing effort under President Xi to improve budget control, and the scale of the task to encompass all fiscal resources across all levels of government in the PRC;
- The PRC's borrowing of ideas about performance budgeting and management, but adapting these to its own framework including the central role of the CCP and its cadres across government, a role being strengthened by President Xi;
- Despite Australia's long history now of attempting to link budgeting to performance and to promote 'managing for results', and the scale of the challenge of fiscal management following COVID-19, there remain political obstacles to the use of objective evaluation techniques and public reporting.

Budgeting and financial management developments are highly relevant not only to intergovernmental relations but also to the following sections of the book on the civil service and service delivery (particularly given budgetary pressures from public expectations of enhanced services such as aged care and disability care).

Reference

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8

The state of local public finance in China under Xi Jinping

Christine Wong¹

Abstract

The remarkable reconstruction of the role of government in the PRC since 1978 has required an overhaul of its public finance system. The process of fiscal reform, however, is still not complete.

Particularly since the 1994 reforms aimed to recentralise revenues, there has been a major mismatch between the expenditure responsibilities of local governments and the revenues they receive. Despite the achievements of new social welfare systems and world-class infrastructure, the fiscal imbalance has resulted in growing waste, inefficiencies, corruption and a mountain of local government debt.

During the first year of the Xi Jinping administration, a sweeping program of governance reform was laid out, starting with a new Budget Law in 2014 aimed to strengthen budget management, rein in extra-budgetary

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revenues and install mechanisms for controlling local government debt. Significant progress has since been made, including in financial reporting and transparency.

Tax reform however has not been nearly so successful and little progress has been made on intergovernmental fiscal reform. As a result, instead of the intended move towards more equal standards of public services, recent developments favour the rich provinces and the fiscal position of local governments has deteriorated. Local fiscal problems have also begun to depress social spending, threatening to undermine the government's goals of improving public services and rebalancing the economy towards consumption.

Keywords: fiscal reform; fiscal decentralisation; equalisation; local government debt.

Introduction

Since market reforms began in 1978, China has undertaken a remarkable reconstruction of the role of government and overhauled its public finances to create a system able to finance the revised government operations and support economic growth, as well as provide the revenues underpinning the government's ambitious industrial and social policies. The process of fiscal reform is not complete despite the substantial advances made, and an unbalanced central–local relationship continues to be a major source of distortion in the Chinese economy.

By expenditure shares, China's fiscal system is the most decentralised in the world, with local governments accounting for 85 per cent of budget expenditures of government. This decentralisation is not matched on the revenue side, where local governments earn just over half of the total revenues.

This mismatch was a legacy of the 1994 fiscal reform that recentralised revenues but left most expenditures with local governments. The imbalance grew worse through the rapid expansion of public services during the Hu Jintao–Wen Jiabao administration, since the increased spending on 'harmonious society' initiatives accrued almost entirely to local governments, enlarging the vertical fiscal gap and requiring more transfers (Wong 2018).

In 2012, local governments earned 52 per cent of budgetary revenues but accounted for 85 per cent of expenditures; the gap was financed by transfers that took up 70 per cent of the central government's revenues. Nearly 70 per cent of the transfers had to be sent to local governments at the county level, which are responsible for delivering virtually all the public services that touch people's lives—education, healthcare, social security and welfare. In China's fiscal system, these transfers have to be passed down through the administrative hierarchy level by level—from Beijing to the provinces, from the provinces to the prefectures and from the prefectures to the counties and districts. The administrative burden of managing these transfers created an extraordinary strain on the bureaucracy, far outstripping the capacities of the monitoring and supervisory systems. The result was that the remarkable achievement of building a fairly comprehensive social welfare system and world-class infrastructure to support China's miracle growth was marred by growing waste, inefficiencies, rampant corruption and a mountain of local government debt.

At the outset of the Xi Jinping administration in 2013, an ambitious plan was laid out for comprehensive reform of the fiscal system targeted for completion by 2020, with the promise of a significant intergovernmental realignment. The reform was planned to proceed in a sequence of three phases, starting with budget and public financial management reform (PFM) in phase one in 2014, reform of the tax system in phase two starting in 2015, and intergovernmental fiscal reform in phase three beginning in 2016.

Phase one reforms began with passage of the revised Budget Law in 2014. Over the past six years these PFM reforms have made considerable progress in building fiscal institutions, including extending budget control over fiscal resources, improving budget transparency and strengthening monitoring and supervision. Reforms to rein in local government borrowing are also beginning to take hold.

While tax reform in phase two saw the successful conversion of the value-added tax (VAT) to a consumption-type VAT, and its extension to cover services in 2016, it has not delivered new revenue sources for local government.

Intergovernmental fiscal reform has also faltered. It officially began in 2016 with the State Council promoting a division of central and local fiscal responsibilities followed by clarification of the central–local division of expenditure responsibilities. However, to date this has brought no significant realignment of revenues and expenditures.

With intergovernmental reform making little progress, PFM reform reining in their extrabudgetary activities and tax reform delivering no new revenue sources, local governments are being squeezed from all sides. This has all taken place in the context of a slowdown in economic growth and tax and fee cuts since 2015, a combination that has sharply reduced revenue growth for government and cut the revenue-to-GDP ratio. The tax and fee cuts have especially affected local government revenues.

Local fiscal difficulties are depressing government social spending, threatening to undermine the government's goals of improving public services and rebalancing the economy toward consumption. If continued, this could return the state of intergovernmental fiscal relations to where it was in the 1990s, when local fiscal difficulties were an impediment to national policy implementation.

This chapter sets out the fiscal reforms that have been pursued in the Xi Jinping era and the fiscal status of local government today and concludes with an assessment of the present state of the intergovernmental system and the risk it poses to China's capacity to achieve its longer-term policy objectives.

Fiscal reform in the Xi Jinping era

During the first year of the Xi Jinping administration, a sweeping program of governance reform was laid out and endorsed at the third plenum of the eighteenth Party Central Committee meeting in November 2013, in which fiscal reform was identified as a key priority (Xi 2013). Citing the 'Overall Plan for Deepening Reform of the Fiscal and Taxation System' approved by the Politburo in July 2014, Finance Minister Lou Jiwei described the program's three big tasks as strengthening the budget management system, improving the tax system and building an intergovernmental system with appropriate resources and responsibilities.

Emphasising that in this round, the reforms were not just ‘applying patches here and there’, nor a process of ‘fanning the broth to keep it from boiling over’, he promised a comprehensive program aimed at achieving a fundamental restructuring of the fiscal system, to proceed in three phases. The first phase—to begin immediately—would focus on budget reforms; phase two would begin in 2015 with reforms of the tax system; and phase three would begin in 2016 with intergovernmental reform to rationalise the assignment of revenues and expenditures (*Xinhua* 2013).

With Party and legislative support, fiscal reforms were off to a fast start in 2014. By far the most important step was passage of the revised Budget Law in August, which ushered in a huge and hugely important program of reform to strengthen budget management, rein in extrabudgetary revenues and install mechanisms for controlling local government debt. It also called for shifting to medium-term budgeting and strengthening budget oversight by the People’s Congress (NPC Standing Committee 2014; see also MOF 2014a).

These are technical reforms in PFM that are mostly invisible to the public, but critical in building the institutions and mechanisms for modern budget management. These reforms typically take many years to implement and refine but have made significant progress over the past six years in improving government financial reporting and transparency, strengthening cash management and extending budget control over off-budget resources (Wong 2018, 2020).

Tax reform has not been nearly as successful. It did see the conversion of the VAT to a consumption type, as well as its extension to services, eliminating a longstanding distortion in the economy. Minor adjustments were also made to resource taxes in 2018—19, but the long-awaited property tax which would greatly assist local government is still sitting in the legislative docket.

Most disappointingly, little progress has been made on intergovernmental fiscal reform.

Progress on intergovernmental fiscal reform

To address the imbalance in the intergovernmental fiscal system, the authorities had made clear that the adjustments would be made on the expenditure side—by recentralising some expenditures while leaving

the revenue division largely unchanged. The Third Plenum Decisions called for the central government to take on more responsibility for social security and major infrastructure with interregional span, as well as provide more transfers to help in financing local public services that have significant externalities or interregional impact, such as education and health (Article 19; see also Xi 2013). The Third Plenum Decisions also called for revamping the system of intergovernmental transfers to reduce waste and improve their effectiveness (Article 17).

To date, the three key documents on intergovernmental fiscal reform are: (1) *the State Council Guiding Opinions on Promoting the Division of Central and Local Fiscal Responsibilities* (State Council Document No. 49, 2016); (2) *the 13th Five-Year Plan for Advancing the Equalisation of Basic Public Services* (State Council Document No. 9, 2017); and (3) *the Reform Plan for the Division of Shared Expenditure Responsibilities between the Central and Local Governments in Basic Public Services* (State Council Document No. 6, 2018).

The 2016 document laid out some general principles for the division of expenditure responsibilities that divide public services into three groups: those that are central government responsibilities (e.g. national defence and diplomacy), local government responsibilities (e.g. public safety, urban transport and facilities, and rural roads), and shared responsibilities. The document called for ‘appropriately’ increasing the share of those under central responsibility while reducing those under shared responsibility. For the large number of shared tasks, in education, health, social security and environmental protection, etc., it called for breaking them down into subtasks and clarifying the division of responsibilities to avoid shirking.

This roadmap calls for functional ministries and provinces to work out the appropriate divisions within their areas of competency and sets a timeframe for the work to be completed. The ministries of defence, national security, foreign affairs and public security were assigned to take the lead in launching the reform in 2016, to be followed by the ministries of education, health, environmental protection, and transport and communications in 2017 and 2018. By 2019–20, the assignment of responsibility was to be completed for the main public services, and provinces to have formulated their plans for clarifying divisions with sub-provincial levels.

In January 2017 the State Council issued the 13th Five-Year Plan (FYP) for equalisation of public services. Following the trajectory of gradually increasing government spending on public services and improving access for all citizens, first introduced in the 11th FYP, the 2017 plan goes further. For the first time, it declares the provision of basic public services to be a core duty of government, and access to these services to be the right of every citizen (see, for example, Xinhua 2017). The plan creates a framework for the provision of these core public services by defining the scope of the government's commitment, the target beneficiaries and the mechanisms for implementation. It establishes a national list of services in eight areas: education, labour and employment, social security, healthcare, social welfare, housing assurance, culture and sports, and services for the disabled. These are broken down into 81 subtasks, with 8 in education, 10 in labour and employment, 7 in social security, etc. For each of the 81 tasks, the list identifies the intended beneficiaries and specifies the suggested standard of provision, lead agencies responsible and financing responsibilities (State Council 2017:Appendix 1). Among the 81, 10 are designated as shared responsibilities, with specific shares assigned to the central and local governments. The remainder are primarily local government responsibilities, sometimes with central government assistance provided 'as appropriate'. Since the list is presumably the outcome of consultation and negotiation with all the relevant ministries, its issuance completes much of the work called for in the 2016 document for delineating authorities and responsibilities and provides a clear framework for working out expenditure needs for local governments.

Without waiting for the ministries to issue guidelines in their functional areas, in February 2018 the State Council issued the *Reform Plan for the Division of Shared Expenditure Responsibilities between the Central and Local Governments in Basic Public Services* (Document No. 9). Drawing from the national list of basic public services and following the principle laid out in the 2016 document, the plan names 8 public services as shared responsibilities between the central and local governments and sets out the national minimum standards of provision and cost-sharing ratios for 18 subtasks (Table 8.1). It promises that services on the national list but not included may be added in future as economic and social development warrants. The plan also divides the 36 provincial and 'semi-provincial' units into five groups for cost-sharing designations, replacing the longstanding regional divisions of 'east', 'central' and 'west' (Table 8.2).

Table 8.1: List of central and local government shared tasks in basic public services, basic standards and division of expenditure responsibilities.

Shared tasks	Basic standards	Expenditure responsibilities and sharing method
Compulsory education	<p>National standards set by central government.</p> <p>National standards set by central government for the national curriculum, textbooks and dictionaries.</p> <p>National standards set by central government for living.</p> <p>National standards set by central government for meal subsidies.</p> <p>National standards set by central government.</p>	<p>Central-local shares:</p> <ul style="list-style-type: none"> • 8:2 for Tier I provinces • 6:4 for Tier II and all others 5:5. <p>100% central finance for textbooks for the national curriculum and dictionaries; local finance for textbooks for the local curriculum.</p> <p>Central-local share 5:5 for all provinces.</p> <p>Central government bears 100% for students from ethnic minorities with a small population.</p> <p>100% central for the national pilot program; local pilot programs by local finance, with some central government capitulation bonuses.</p> <p>Central and local governments share proportionally, with sharing rates determined by the student's originating province: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.</p> <p>Central and local governments share proportionally, with sharing rates determined by the student's originating province: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.</p> <p>Central and local governments share proportionally: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.</p>
1. Non-personnel running cost guaranteee		
2. Free textbooks		
3. Living allowance for students with financial difficulties		
4. Nutritional subsidies for students in poor areas		
5. National grants for secondary vocational education		
6. Free tuition subsidy for secondary vocational education		
7. National bursary for general high school education		

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Shared tasks	Basic standards	Expenditure responsibilities and sharing method
8. Free tuition and fee subsidies for general high school education	Central government sets different subsidy standards from province to province, and local governments can determine specific standards based on local conditions.	Central and local governments share proportionally for the agreed standards: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.
9. Basic public employment services	Standards are formulated by local governments based on actual conditions.	Mainly based on local fiscal capacity and number of people in need.
10. Basic pension scheme for urban and rural residents	National standards set by central government.	100% central for Tier I and II provinces, 5:5 for all others.
11. Basic medical insurance scheme for urban and rural residents	Central government sets guiding subsidy standards, and local governments set specific standards based on actual conditions.	Central-local shares: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.
12. Medical assistance	Standards set by local governments based on actual conditions.	Mainly based on local fiscal capacity and number of people in need.
13. Basic public health services	National standards set by central government.	Central-local shares: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.
14. Family planning assistance guarantee	National standards set by central government.	Central-local shares: Tier I: 8:2; Tier II: 6:4; Tier III: 5:5; Tier IV: 3:7; Tier V: 1:9.
15. Relief for the needy	Standards set by local governments based on actual conditions.	Mainly based on local fiscal capacity and number of people in need.
16. Relief for victims of disasters	The central government sets subsidy standards, and local governments set specific subsidies based on actual conditions.	Central government provides subsidies, with the remainder borne by local finance.
17. Services for persons with disabilities	Standards set by local governments based on actual conditions.	Mainly based on local fiscal capacity and number of people in need.

Shared tasks		Basic standards	Expenditure responsibilities and sharing method
Basic housing security	18. Urban and rural affordable housing projects (including rural dilapidated houses renovation)	Standards set by local governments based on actual conditions.	Mainly based on local fiscal capacity and number of people in need.

Source: State Council (2018:Appendix).

Table 8.2: The classification of budgetary units (2017).

Old designation	New designation	Number of provinces/cities	Group members	Per capita GDP as share of national average	Per capita budget revenue as share of national average
West	Tier I	12	Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang	75%	70%
Central	Tier II	10	Hebei, Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan and Hainan	78%	65%
East	Tier III	3	Liaoning, Fujian and Shandong	114%	87%
	Tier IV	9	Tianjin, Jiangsu, Zhejiang, Guangdong, and five cities Dalian, Ningbo, Xiamen, Qingdao and Shenzhen	164%	157%
	Tier V	2	Beijing and Shanghai	211%	364%

Source: State Council (2018). Calculations based on NBS (2018).

Loud thunder, small drops of rain

Coming 13 months after the 13th FYP document on the equalisation of public services, the 2018 reform plan seems a lost opportunity. Rather than further building momentum for rebalancing the intergovernmental relationship, the plan largely formalised current divisions, signalling a pause in intergovernmental reform. Its issuance has had no effect on raising the central government's share in spending, which has continued its downward trend, slipping from 14.8 per cent in 2018 to 14.7 per cent in 2019 and 14.3 per cent in 2020.²

Contrary to official rhetoric that portrays the greater differentiation of provinces as a change toward greater equalisation (Ifeng 2018), this change favours the rich provinces, and makes the central–local cost-sharing less redistributive than before. A close examination of the sharing rates for the 18 listed services finds them largely unchanged from prior practice, with one important exception. For the tier I and tier II provinces—the former ‘western’ and ‘central’ provinces—the sharing rates are across-the-board unchanged for the major expenditures. For example, the sharing rates for compulsory education (Table 8.1, items 1, 2 and 3) were established in 2007 (Lin and Wong 2012); those for student assistance (items 5 and 6) were set in 2012 (MOE 2012), and for the Residents’ Basic Medical Insurance Scheme (item 11) in 2014 (MOF 2014c). For these provinces, the reform merely codified current practice. The exception is in the tier III, IV and V provinces—the three groups broken out from the former ‘eastern’ provinces—where the central government’s sharing rates have increased for many services for which these provinces had previously received little or no support.

In terms of the effort to clarify and codify the division of central–local responsibilities, the limited scope of the 2018 plan only serves to highlight the huge task ahead. Following the plan’s rollout, a new category of ‘transfer payments for shared fiscal responsibilities’ was created in 2019, which listed transfers for 54 services. The 18 subtasks listed in the plan were represented among 12 of the 54, and together accounted for slightly less than half of the total ‘shared responsibility transfers’.³ Confusingly, transfers for the shared responsibilities were only 43 per cent of total transfers net of tax rebates,

2 Calculated from NBS and 2021 Budget Report to the NPC.

3 The amount of transfers for the 18 subtasks cannot be calculated exactly with current available information. The categories are broader in the transfers classification, so that the 18 subtasks fit under 12 transfer categories but are not always the whole category (MOF 2019).

implying that more than half of the transfers in 2019 were provided for expenditures for which the central government had no responsibility—including many of the environmental protection expenditures. At the same time, the cost-sharing ratios are sometimes misleading. The RMB156.5 billion ‘Urban and Rural Compulsory Education Transfer’ covered only 10.3 per cent of the RMB1.5 trillion total budgetary spending by local governments on compulsory education in 2019, far less than the sharing ratios implied in Table 8.1.⁴ Given that the central government increasingly sets national standards for service provision, and with three-quarters of all transfers in China set on a discretionary basis, the narrow scope of the 2018 reform signals the central government’s reluctance to cede financial control.⁵

Most disappointingly, the reform plan made no mention of the assignment of responsibility for capital investments needed for the provision of public services—schools, clinics, hospitals, roads and the like. The heavy responsibility for financing infrastructure and the restrictions on borrowing had in past decades driven local governments to rely on land revenues and off-budget borrowing through financial vehicles, a practice that current budgetary reforms aim to curb. The omission of this critically important area of shared responsibility, in the absence of new revenue assignments, leaves local governments in the same predicament and exposed to the same financial risks as before.

Local government fiscal status today

Since the start of the Xi Jinping era, the fiscal position of local governments has deteriorated. The first cause is the changing macro-economic environment and associated fiscal policies. After a decade of double-digit growth, the Chinese economy began to slow down markedly after 2010 (Table 8.3). Revenue growth fell even more sharply, to less than one-half of the level during the previous decade. This was followed by a pullback in expenditure growth to keep the deficit within an acceptable band—this is shown in Figure 8.1, where the long fiscal expansion (measured as revenue and expenditure as a share of GDP) that had begun even before 2000

4 Calculated from MOF final accounts. The main reason the share is so low is that salary payments are not included in this category of transfers.

5 Aside from tax rebates, which are excluded from net transfers, only the equalisation transfer (approximately 25 per cent of net transfers), has a dedicated revenue source—the corporate income tax receipts of the central government. All other transfers are at the discretion of the central government.

flattened out, and then ended in 2015. Thereafter both budget revenues and expenditures began to fall (as shares of GDP), and the deficit widened to 5 per cent in 2019.

Table 8.3: Slowing economic growth and fiscal trends under the ‘new normal’.

Annual growth, price-adjusted	GDP	Revenue	Expenditure
2000–2010	12.8%	17.5%	16.4%
2010–2019	7.5%	7.0%	8.7%
2010–2015	7.8%	9.8%	11.3%
2015–2019	7.1%	3.5%	5.7%

Source: Author’s calculations from National Bureau of Statistics (NBS) data.

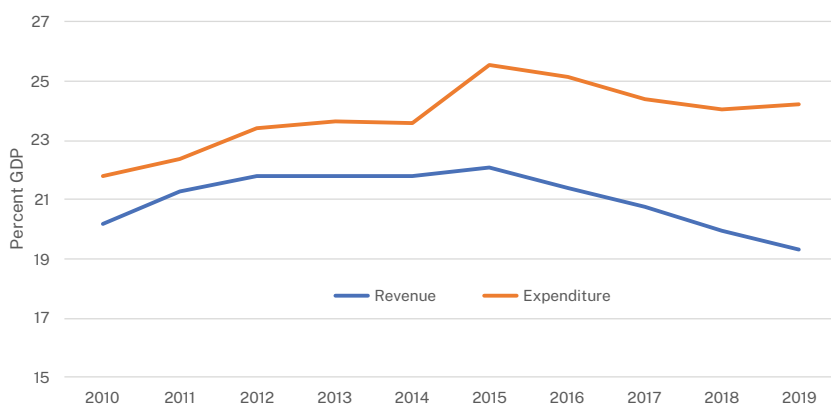


Figure 8.1: Fiscal expansion goes into reverse.

Source: Author’s calculations from NBS data.

The sharp slowdown in revenue growth since 2015 was in large part due to a series of tax cuts and tax changes that marked the incomplete tax reform phase. The conversion of the VAT to a consumption-type VAT in 2016 allowed for expenses for investment goods to be deducted. This welcome change was estimated to cost RMB900 billion over two years, or roughly 1 per cent of GDP (Zhang 2013). The VAT was also extended appropriately to cover services, replacing business tax, but concessions made in the transition have also reduced the tax base.⁶ Several tax cuts followed. In 2018 the top VAT rate was reduced from 17 per cent to 16 per cent, and

⁶ These include reduced rates of 10 per cent and 13 per cent for agriculture and construction, respectively.

further to 13 per cent in April 2019 (State Taxation Administration 2019). The threshold for the personal income tax was raised in October 2018 from RMB3,500 to RMB5,000 per month, and generous deductions were introduced in January 2019 that further cut tax receipts.⁷ Altogether cuts in taxes and fees totalled more than RMB7.6 trillion over the period 2016–2020, with RMB4.7 trillion in tax cuts (MOF 2021a). The combination of slower economic growth and tax cuts have reduced revenue buoyancy to below 1 for the 2010–19 period, where revenue growth was less than GDP growth for the first time since the mid-1990s.

Tax cuts have affected local revenues in particular, especially the recent cuts favouring small and medium enterprises that are a larger share of local tax bases in the smaller cities and towns.⁸ In aggregate, local revenue growth lagged overall revenue growth during 2015–2019, in contrast to previous periods of fiscal expansion until 2015, when local revenues had grown faster than total revenues (Table 8.4, panel A), as did local expenditures (panel B). This was reversed after 2015, when both local revenues and local expenditures lagged. The growth in transfers (panel C) slowed even more rapidly, further squeezing local governments.

Table 8.4: Recent changes in revenue, expenditure, and transfers (annual growth, price-adjusted).

	Panel A: Revenues			Panel B: Expenditures			Panel C: Net transfers
	Total	Central	Local	Total	Central	Local	
2000–2010	20.0%	19.8%	20.3%	18.9%	11.2%	21.7%	26.8%
2010–2015	12.9%	10.3%	15.4%	14.4%	9.8%	15.3%	13.1%
2015–2019	5.7%	6.6%	5.0%	8.0%	8.3%	7.9%	5.9%

Source: Author's calculations from NBS data.

The effect of budget reform and the central government's policy pivot

While the slowdown in transfers was in part driven by the slowdown in revenues, the sharp downturn reflects a pivot in the central government's willingness to fund local expenditures. During the Hu–Wen administration, the rebalancing of government spending toward public services had raised the

⁷ Receipts of personal income tax were expected to fall by more than 25 per cent in 2019 (Zhao 2020).

⁸ Officials in a county in Hunan estimated that the 2019 tax and fee cuts would cut 13.5 per cent from county revenues, compared to an expected reduction of 10 per cent at the national level, and 11 per cent at the provincial level (Cheng Siwei 2019).

share of budget expenditures by local governments from 65 per cent to 85 per cent of total expenditure during 2000–2012. To provide financing, transfers grew rapidly, from RMB254 billion to RMB4 trillion, at a rate exceeding that of both central revenues and local expenditures by a sizeable margin (Table 8.4). By 2012 transfers absorbed 70 per cent of central government revenues, up from 35 per cent, and were trending upward. The fact that most (70 per cent) of these had to be passed down from the centre through the provinces and prefectures to get to the counties and districts placed great strain on the bureaucracy, far outstripping the capacities of the monitoring and supervisory systems. The result was that the remarkable achievement of building a fairly comprehensive social welfare system and world-class infrastructure to support China’s miracle growth was marred by growing waste, inefficiencies, rampant corruption and a mountain of local government debt.

The upward trend in transfers changed after 2012, when the central government held transfers to around 70 per cent of central revenues throughout the 2012–2019 period (Figure 8.2). As a result, even with local spending slowing sharply after 2015, transfers were funding a declining share of it—falling from a peak of 39 per cent in 2009 to 31 per cent in 2019.

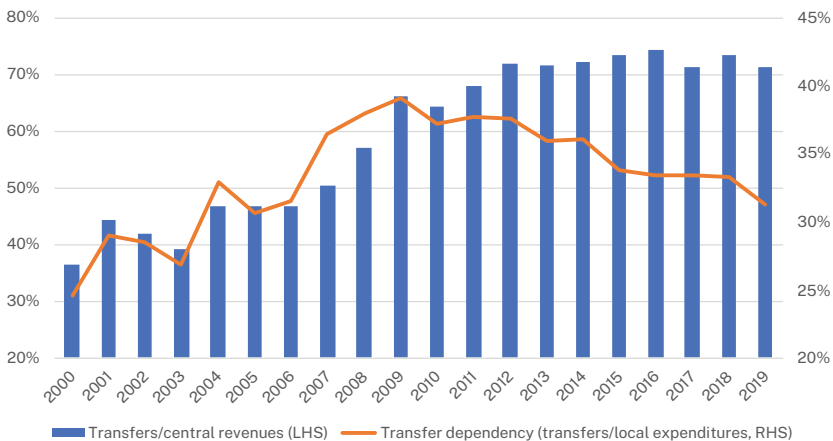


Figure 8.2: Central government transfers and local government transfer dependency.

Source: Author’s calculations from NBS data.

The tightening of transfers was also driven by budget reforms that aimed to improve budget execution and cash management, as well as make transfers more effective. The rapid proliferation of new programs and transfers during the Hu–Wen era had sometimes left local governments scrambling to keep

pace. Audit reports have found widespread problems of slow program implementation and low rates of utilisation of funds, especially with transfers arriving in multiple strands and often late in the year. In Guangdong, for example, an audit of the 2015 provincial budget faulted 21 departments and agencies for low project implementation rates. Among them, the health and family planning commission and the provincial agricultural science academy were singled out for having, between them, nearly 200 programs with disbursement rates of less than 30 per cent at year-end, holding more than RMB600 million in unused funds (Huang 2016). Audit reports also found frequent diversion and misuse of funds, even in the high-profile poverty alleviation program.⁹

Reining in and mobilising idle balances has been a major focus of budget reform, one strand of which is strengthening Treasury management to ensure local governments reveal the full extent of their fiscal resources. The Budget Law states that all government revenues must be turned over to the state Treasury (Article 50). Since the Treasury Single Account (TSA) was first created in the 1990s, however, the government has struggled to get all fiscal funds and spending routed through the TSA, especially at the subnational levels where local governments often justified keeping special fiscal accounts to hold earmarked funds. In concert with reforms to reduce earmarked transfers and ensure earlier disbursal of funds, the Ministry of Finance (MOF) has pushed harder to shut down fiscal special accounts.¹⁰

Other policies affecting local government finances include the commendable program to equalise public services discussed in the previous section, under which rising national standards and joint financing requirements translate into growing burdens for local governments. According to the director of the MOF's Shandong Commissioner's Office, in 2017 a prefectural city faced 75 public service mandates whose costs totalled RMB338 million. This was an increase of RMB270 million over a decade, a fivefold increase that far exceeded the prefecture's revenue growth during the period (Sohu 2019). In a similar vein, one county official complained that rising standards for the rural minimum living stipend program (*dibao*) had raised its cost from RMB10 million yuan in 2015 to nearly RMB200 million in 2019, equivalent to 50 per cent of the county's budget (*Liaowang* weekly 2020).

9 See, for example, Auditor-General Hu Zejun's report to the NPC Standing Committee on the rectification of problems identified in the 2017 central budget implementation, 24 December 2018 (Hu 2018).

10 In MOF's estimate, even after shutting down 74,000 accounts, more than 150,000 remained in 2014 (Ministry of Finance 2014b).

This extraordinary increase in *dibao* expenditure was caused by the effort to coordinate with the poverty alleviation program in 2016, under which provincial governments were ordered to raise the standards of *dibao* provision to match the national poverty threshold, a change that required very large increases in some localities (Wong and Qian 2020b). Since *dibao* is one of the services listed in the 2018 reform plan without a specified central government share, county governments, which are responsible for program implementation, are at the mercy of higher-level governments to help cover rising costs. A glimpse at how costs can ratchet up so quickly is provided by the example from Jiangxi province, which shows that when transfers fall short, local governments—in this case especially rural governments—are left with big holes to fill (Table 8.5).

Table 8.5: Planned changes in *dibao* programs in Jiangxi province for 2020.

	RMB per person/month		
	2019	2020	Increase
Urban <i>dibao</i> threshold	640	705	10.2%
fiscal subsidy	410	450	9.8%
gap for local finance	230	255	10.9%
Rural <i>dibao</i> threshold	385	470	22.1%
fiscal subsidy	285	325	14.0%
gap for local finance	100	145	45.0%

Source: Jiangxi Provincial People's Government (2020), cited in Wong and Qian (2020b), Table 2.

After a decade of fiscal expansion and lavish spending under the Harmonious Society program, it was prudent for reforms in the Xi Jinping era to start with a period of review and consolidation of expenditures. Efficiency savings may be harder to find, though, after several years of hardening budget constraints. As the fulcrum of spending and service provision, county-level governments are bearing the brunt of the fiscal tightening. With the recent tax and fee cuts taking a heavy toll on their revenues, many counties are straining to meet payroll and deliver social services—a situation that was greatly exacerbated by the COVID crisis in 2020.¹¹

11 Official statements began calling on provinces to ensure more fiscal resources are assigned to the lower levels. See, for example, Finance Minister Liu Kun's report on the 2018 final accounts (Liu 2019). During 2020 emphasis was shifted to prioritising the 'three guarantees'.

The present state of the intergovernmental fiscal system

According to the plan presented by then finance minister Lou Jiwei in 2014, comprehensive reform of the fiscal system should have been completed by 2020. Reforms have fallen far short of that goal, though considerable achievements have been made in building fiscal institutions.

In budgeting and PFM reform, much of the vision laid out by Lou has been realised in form, if not yet completely in practice. These include reining in extra-budgetary resources and extending budget control over fiscal resources segregated in the ‘four budgets’.¹² Government financial reporting reforms have brought improved budget transparency and more detailed, standardised reporting. Monitoring and supervision are conducted not only internally by the finance ministry’s supervision department, but also externally by the People’s Congress, the National Audit Commission and the Central Disciplinary and Inspection Commission. Treasury reforms have broken through the level-by-level fragmentation to allow the MOF to monitor the cash balances of county governments.¹³ These reforms go a long way toward building the mechanisms for tracking how public moneys are spent and holding spending units accountable for results—weaknesses that had been glaringly exposed during the Hu–Wen era.

Reforms to rein in local government borrowing are also beginning to take hold. After several years of cat-and-mouse games where local governments outwitted regulators and continued to borrow outside the debt quotas under various guises including local government financing vehicles (LGFVs), private-public partnerships and procurement contracts, a concerted effort in coordination with financial sector authorities have succeeded in some deleveraging. With tighter budget control and imposition of rules assigning

12 The four budgets are the general budget, Government Fund budget, State Capital Operating budget (SCOB) and Social Security Fund (SSF) budget. Since 2015, a number of government funds (GFs) have been abolished and their revenue streams moved into the general budget; sunset clauses have been placed on balances in the remaining funds, with ‘expired’ balances swept into the budget; and the share of the SCOB remitted to the general budget has been incrementally raised to 30 per cent by 2020. Even after these changes, RMB3 trillion, equal to 35 per cent of the combined revenues of the GF and SCOB, were moved into the budget in 2020 to finance the deficit spending for the stimulus program. In addition, the stimulus measures offered waivers of social security contributions that cut revenues to the Social Security Fund by some RMB1.7 trillion (Wong 2021).

13 This is one of the tools MOF uses to ensure local governments have sufficient funds to meet payroll expenses. See, for example, ‘Red lights flashing on county treasury accounts’, *Liaowang* weekly (2020).

responsibilities for direct and contingent debt to the leading officials and tying them to personnel records, the growth of hidden local government debt appears to have slowed since 2018, and LGFV debt has shrunk (Sun and Tan 2020; He 2021).

Achievements in the ‘phase one’ reforms were intended to pave the way for realignment in central–local relations, with tax reform in phase two delivering some new revenue sources from a property tax and revised resource taxes. Instead, local budgets are being squeezed from all sides. Fiscal difficulties at the county level were the likely culprit in China’s ineffectual social welfare response to the COVID crisis in 2020, when the vast majority of workers suffering economic hardship received no help from the government despite promises of assistance from top leaders. In a close examination of the unemployment and *dibao* programs, Wong and Qian (2020a, 2020b) found that through the whole year of 2020 the *dibao* program added only 1.1 million recipients, and the unemployment insurance scheme added only 420,000.

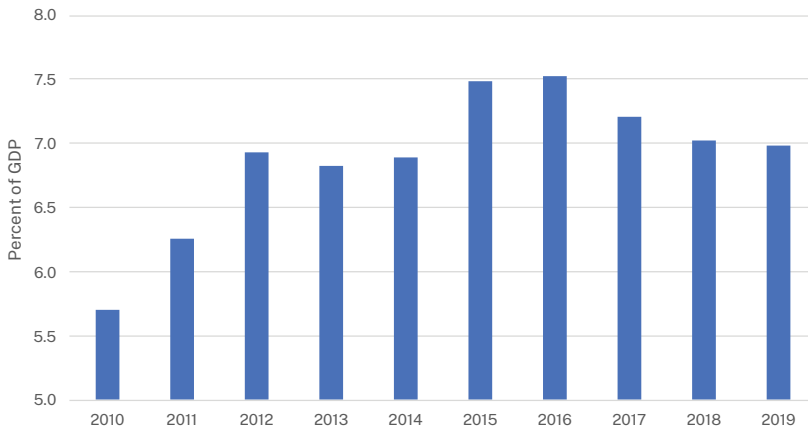


Figure 8.3: Budgetary spending on education, health, social security and housing.

Note: Data for social security and employment are net of expenditures on public sector pensions and those related to the armed forces (demobilisation and resettlement of soldiers, and disability and death benefits).

Source: Author’s calculations from NBS and MOF final accounts (MOF various years).

Data at the macro level suggest that local fiscal problems have begun to depress social spending, with budgetary expenditure on social services as a share of GDP declining between 2016 and 2019 (Figure 8.3). This trend threatens to undermine the government’s goals of improving public services

and rebalancing the economy toward consumption during the 14th Five-Year Plan. If continued, it could return the state of intergovernmental fiscal relations to where it was in the 1990s, when local fiscal difficulties were an impediment to national policy implementation (World Bank 2002).

As for local government debt: stopping the growth of off-budget debt is an important but unsustainable achievement. The huge stock of debt—estimated to total 46–75 per cent of GDP—remains a heavy burden on local finances that necessitates continued borrowing, both on- and off-budget, for the vast majority of localities that lack the resources to repay.¹⁴ The former minister Lou Jiwei warned that the next five years will be the peak maturity period for urban investment bonds, and as many as one-quarter of the provinces will face debt servicing costs (principal repayment and interest) exceeding 50 per cent of their revenues (Lou 2020). With local finances under growing stress, defaults of local state-owned enterprises and financial vehicles may soon emerge as financial risks to the economy.

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¹⁴ Estimates of hidden debt range from 21 per cent of GDP to 50 per cent (Wang and Liu 2019; IMF 2021). Official debt was RMB25.7 trillion at year-end 2020, or 25.2 per cent of GDP (MOF 2021b).

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9

Australia's financial management challenges post-COVID

Henry Ergas and Joe Branigan

Abstract

COVID ended Australia's almost three decades of GDP growth and generally sound budget management at the federal level, from the early 1990s to the end of 2019. Australia's federal public financial management performance had been applauded by international institutions over this period. That economic policy 'exceptionalism' over many years provided the necessary buffer to use overwhelming fiscal and monetary firepower initially in 2020, before more prudently calibrating the policy response towards the end of 2020 and in 2021. This chapter describes Australia's fiscal response during COVID and considers the economic and budgetary challenges Australia now faces, and how we might deal with those challenges over the rest of this decade and beyond. We find that, while one can argue about individual components of the COVID stimulus package, the overall approach of compensating for the temporary costs and hardships of government decisions was entirely sensible. While the outlook for Australia's public finances is positive, there are a number of caveats to this conclusion, including risks around slower productivity growth, structural increases in public expenditures related to ageing and disability, a preference for the 'mega project' among the political class, and rising interest rates.

Keywords: fiscal policy; fiscal stimulus; public financial management; COVID; ageing; public infrastructure investment.

Introduction

Only time will tell to what extent the global COVID pandemic has broken Australian society, but there is no doubt that, at least temporarily, COVID broke the Australian economy.¹ The Australian federation's public policy response to COVID included shutting the international border to overseas tourists, business travellers and students, and closing many 'non-essential' domestic industries such as interstate tourism, non-grocery retail shopping, schools and universities, sporting and music events and gyms. Fortunately, Australia's resources and bulk commodity export ports continued to operate, sending iron ore, coal, natural gas, gold and livestock to the rest of the world.

Despite an immediate fiscal expansion (and concomitant monetary loosening) designed to offset an expected employment deep freeze or outright permanent job losses, the end result was a V-shaped recession in quarterly terms in mid-2020 and a sharp rise in the household savings rate as substantial transfer payments were made to households, and as families, especially in Melbourne and (later) Sydney and Canberra, were forced to stay at home for weeks on end, curtailing spending. Over the course of 2020 and 2021, an increasing proportion of the Australian labour force was able to negotiate with their employers to work in their own home, thereby lessening the already substantial impact of the social distancing rules on economic activity.

COVID ended Australia's almost three decades record run of GDP growth and generally sound budget management at the federal level. In fact, the additional public deficits and debt have been so large and unprecedented that COVID represents a clear structural break from past fiscal performance. Before 2019–20, and notwithstanding the inevitable and often large swings in Australia's terms of trade, Australia had achieved a steady and predictable

1 Hereafter, 'COVID' will refer to the coronavirus disease (COVID-19) caused by the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). See: [www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-\(covid-2019\)-and-the-virus-that-causes-it](http://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-(covid-2019)-and-the-virus-that-causes-it).

economic growth path based on generally prudent economic policies, an inclination towards economic reform, and relatively strong population growth.

Australia's federal public financial management performance has been, generally, lauded by international institutions such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) since the 1990s. For example, in its 2006 Economic Survey of Australia, the OECD observed that while Australia 'has been riding the global boom in commodities' it has 'also made its own luck through a series of structural reforms and the introduction of a robust macroeconomic framework which have bolstered resilience'. The OECD (2006:8) found:

This is illustrated by its macroeconomic stability in the face of a string of recent shocks, in stark contrast to the macroeconomic chaos which followed the commodities boom of the early 1970s.

More recently, the IMF (2020) concluded:

Executive Directors commended the [Australian] authorities for the sound macroeconomic management and strong policy frameworks, which have underpinned the resilience of Australia's economy.

All that said, what good are the plaudits for a strong economy and sound fiscal management if not for being able to respond to large unforeseen economic shocks such as this once-in-a-century global pandemic? In that sense, the striving for (if not the achievement of) an Australian exceptionalism in economic policy since the 1980s has served us well, providing the necessary buffer to use overwhelming fiscal and monetary firepower initially in 2020, before more prudently calibrating the policy response towards the end of 2020 and in 2021.

The chapter is set out as follows. First, a discussion of Australia's pre-COVID economy and budget will set the scene and establish the business-as-usual case that, second, Australia's performance during COVID can then be compared to. Third, the chapter will consider whether or not the Australian Government 'overdid it' in terms of its overall response. Fourth, the chapter will look to the future and consider the economic and budgetary challenges Australia now faces and how we might deal with those challenges over the rest of this decade and beyond.

Pre-COVID — Economy

Australia's long run of economic growth in annual terms began in 1991–92 as we climbed out of the 1990–91 recession (where annual GDP declined by -0.4 per cent), the first recession since a more severe downturn in 1982–83 (-2.2 per cent). Over the 28-year period between 1991–92 and 2018–19 (inclusive), Australia's average annual real GDP growth rate was 3.1 per cent, which is marginally below Australia's average annual real GDP growth rate between 1960–61 and 2019–20 of 3.4 per cent. Australia's average annual GDP per capita growth rate over the 28-year period was 1.7 per cent (Figure 9.1).

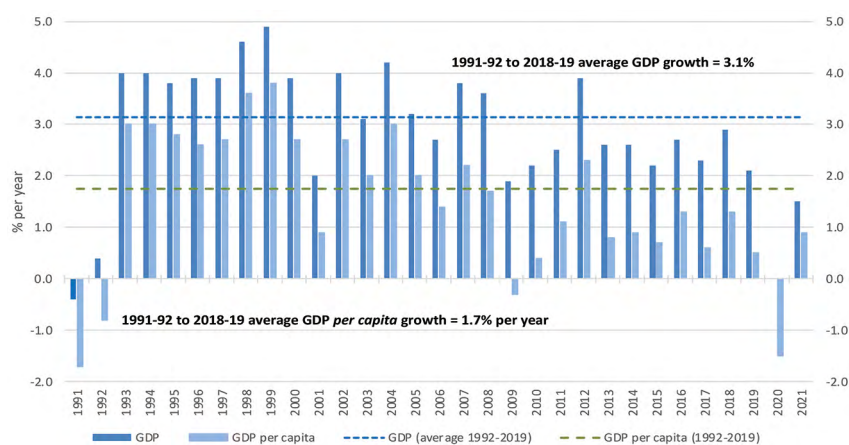


Figure 9.1: Australian annual GDP and GDP per capita growth since 1990–91.

Source: ABS (2021a).

The reasons for Australia's 28-year run of economic growth in GDP terms, and hence Australia's capacity to manage the impacts of the pandemic in 2020 and 2021, are numerous and include continuous population growth, an enormous natural resources endowment, generally good medium-term economic and social policymaking and some good luck.²

Perhaps as importantly, Australia's population has been rising strongly since World War II, adding an element of extensive growth to the intensive growth which comes from higher productivity. Over the 28 years of positive annual economic growth, 45 per cent of that growth can be—somewhat

² In annual terms, 28 years of positive GDP growth is a record for an advanced economy.

roughly—be attributed to population growth.³ Population growth has also allowed Australia to achieve economies of scale and scope in the provision of government services and a greater degree of industrial diversity, lowering the risks of a negative shock to any one industry causing an economy-wide recession.

Australia also benefits from a tremendous natural resources endowment—a product of being the sixth largest country in the world by land area. Australia is a resources superpower, holding large proportions of the world's useable iron ore, thermal and metallurgical coal, natural gas and uranium. Despite experiencing two of the worst droughts since Federation in the early 2000s (which severely impacted our agricultural commodity exports), the rapid growth in Chinese (and later Indian) demand for Australia's mineral resources drove export prices (and later volumes) to record levels.

As a result, Australia's terms of trade rose strongly from the beginning of the new century until the end of the second phase of the mining boom in 2012, only briefly interrupted by the global financial crisis (GFC) in 2008–09. And despite the mining boom peaking in 2012, our terms of trade (which is the ratio of export prices to import prices) began to recover in 2018 and have well been above their long-run average since the pandemic began (Figure 9.2).⁴

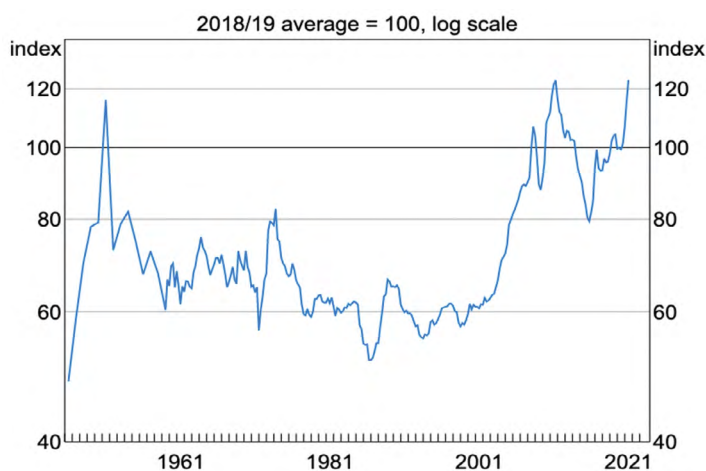


Figure 9.2: Australia's terms of trade (1945–2021).

Source: ABS (2021a); RBA (2021).

³ Estimated as the difference between total real GDP growth and total real GDP per capita growth over the period.

⁴ A definition and discussion of the terms of trade can be found here: www.rba.gov.au/education/resources/explainers/australia-and-the-global-economy.html.

International comparison

Partly as a result of stronger population growth, Australia's average annual growth rate over the 20-year period to 2018–19 (pre-COVID) was higher than many of its OECD peers such as Canada (2.1 per cent), the United States (2.1 per cent), United Kingdom (1.8 per cent), France (1.4 per cent), Germany (1.3 per cent) and Japan (0.9 per cent). Australia's growth rate was slightly below New Zealand's (3.0 per cent) over the period, and well below its major trading partners Korea (4.1 per cent) and China (9.0 per cent).

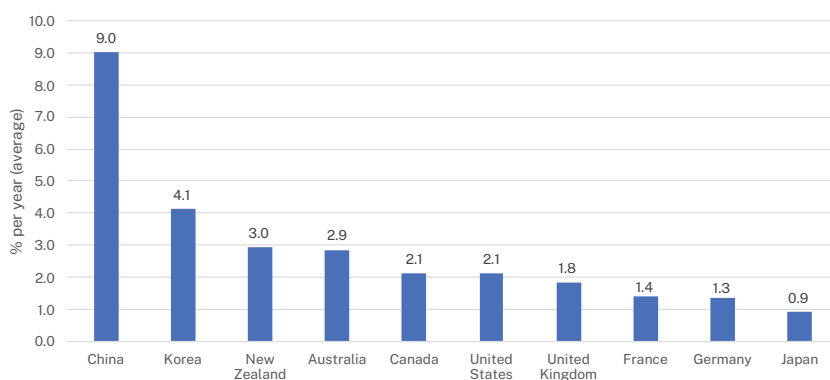


Figure 9.3: GDP growth, Australia's major trading partners.

Source: IMF WEO database (IMF 1999–2019).

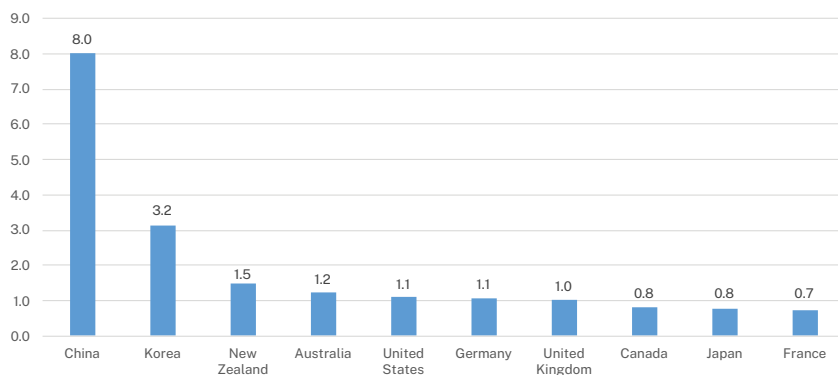


Figure 9.4: Average GDP per capita growth, Australia's major trading partners.

Source: IMF WEO database (IMF 1999–2019).

In per capita terms, Australia's pre-COVID GDP growth (at 1.2 per cent per year, on average between 1999–2000 and 2018–19) has slightly exceeded its developed country peers such as the United States (1.1 per cent), Germany (1.1 per cent), and the United Kingdom (1.0 per cent). New Zealand performed strongly over the 20-year period, with per capita GDP growth of 1.5 per cent per year, on average. China (8.0 per cent) and Korea (3.2 per cent) grew strongly, in China's case reflecting its much lower initial income level.

Pre-COVID budget management

The Hawke Government achieved a significant fiscal tightening in the late 1980s, reducing spending in real terms in 1986–87 (–1.1 per cent), 1987–88 (–0.9 per cent) and 1988–89 (–3.1 per cent), with the effect of shifting the underlying cash balance (a forerunner to the operating balance) from –2.0 per cent of GDP to +1.5 per cent of GDP in just three years.⁵ Following the recession and subsequent recovery in the early 1990s, the federal budget position was strengthened in the late 1990s and early 2000s where the Howard Government focused on spending restraint and tax reform. Indeed, by the mid-2000s the Commonwealth had achieved a negative net debt position, a rare feat in the OECD. The Howard Government enjoyed the benefits of the first phase of the mining boom from the early 2000s, which boosted Commonwealth tax revenues and increased Australian households' real incomes as the exchange rate appreciated, making imported goods (like TVs, computers and cars) cheaper for Australian consumers.

This fiscal consolidation achieved in the early years of the Howard Government⁶ was maintained until the GFC led to the fiscal loosening that began in 2008–09 under the Rudd Government.⁷ From 2013–14, the Abbott and Turnbull governments began to steadily reduce annual budget deficits via expenditure restraint. Consequently, Australia's public net debt was forecast to peak at 19.2 per cent of GDP in 2018–19 and decline to 14.4 per cent of GDP by 2022–23 (Commonwealth of Australia 2019: Statement 10, Table 4).

⁵ Spending in real terms is calculated using the consumer price index deflator.

⁶ While the Howard Government maintained operating surpluses throughout its term, there is some debate about whether it went into 'structural deficit' in the final years; that is, it should have saved more of the proceeds from the mining boom to maintain a structural balance.

⁷ While some degree of fiscal loosening was necessary to respond to the potential (unknown) impacts of the GFC, there is debate around the scale and ultimate effectiveness of the response. See Makin (2010).

State and local budgets

Australia's states and territories are an important part of the fiscal picture. In 2019–20, the second tier of the federation accounted for 23 per cent of total public revenue raised, and local governments (the third tier) accounted for a further 7 per cent (ABS 2022b). While the Commonwealth Government maintains most of the revenue-raising power, the states have most of the non-defence service delivery responsibility, notably for the provision of police and emergency services, public hospitals and school education services. However, with the Commonwealth raising some 70 per cent of revenues, about 50 per cent of state and territory government expenditure is funded by the Commonwealth through direct transfers (grants). Local governments also rely on state and federal government grants to supplement local council rates and charges, especially for new infrastructure projects such as local roads and new recycling centres. The immediate pre-COVID improvement in the total 'federation' fiscal balance was caused by the reduction in the Commonwealth Government's fiscal deficit being larger than the increase in the state governments' fiscal deficits, which had tripled between 2016–17 and 2018–19 (Figure 9.5). Local governments have maintained—and are largely required to maintain—consistent fiscal surpluses in recent years.

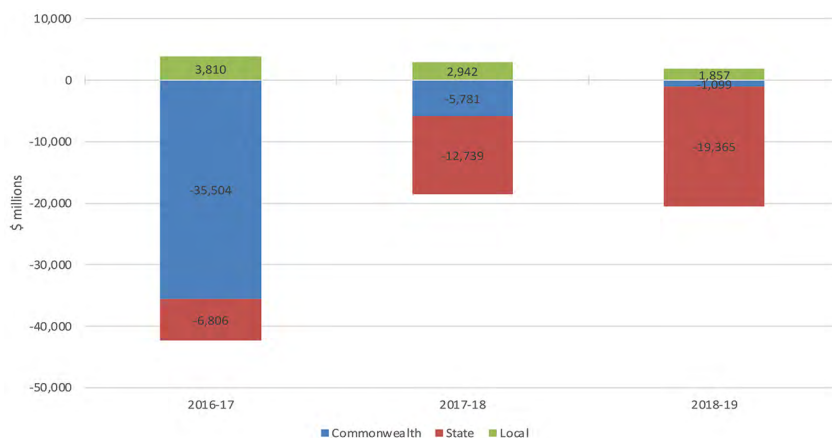


Figure 9.5: Pre-COVID fiscal balance, all levels of government.

Note: The fiscal balance (also defined as 'net lending/borrowing') includes the effect of infrastructure investment.

Source: ABS (2018–20).

The COVID period (2020–21)

Economy

Australia's enviable record of 28 years of uninterrupted growth (in annual terms) ended with the 'COVID recession'⁸ in the first half of 2020 when the economy contracted by 0.3 per cent in the March quarter 2020 and a further 7.0 per cent in the June quarter (quarterly, seasonally adjusted).⁹ The economy subsequently rebounded (albeit off a significantly lower base) by 3.6 per cent and 3.2 per cent in the September and December 2020 quarters respectively. In 2021, the economy continued easing off its rebound trajectory, growing by 1.9 per cent in the March quarter before declining again to its long-run average (since December 1973) of 0.7 per cent in the June quarter. In per capita terms, it is interesting to note that, in the June, September and December quarters of 2020, GDP and GDP per capita growth were almost identical—indicating the sudden halt in Australia's population growth through that period (Figure 9.6).

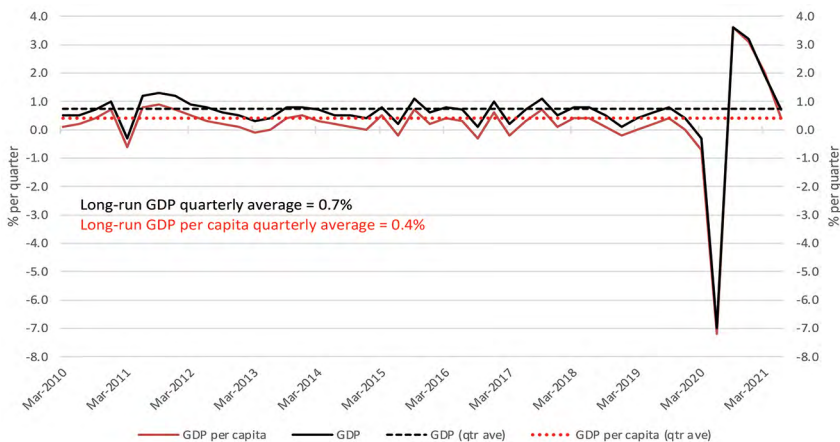


Figure 9.6: Australian quarterly GDP and GDP per capita since 2010.

Source: ABS (2022a).

⁸ In Australia, the definition of a recession is generally accepted to be two consecutive quarters of negative GDP growth.

⁹ The ABS has temporarily suspended calculating trend estimates for most economic indicators.

In annual terms, the picture is less dramatic. The Australian Bureau of Statistics (ABS) first estimated that the Australian economy contracted by 0.3 per cent in 2019–20 (or by AUD5.6 billion). However, the ABS subsequently revised its 2019–20 GDP estimate to be 0.0 per cent (i.e. zero growth) when it published the 2020–21 National Accounts in October 2021. In fact, in dollar terms GDP contracted in 2019–20 by AUD76 million, which is clearly far less than was initially feared (ABS 2021a).¹⁰

Nonetheless, based on the ABS' revised estimate, relative to its long-run trend growth rate (of 3.1 per cent per year between 1991–92 and 2018–19 inclusive), as at 2020–21 the economy is around AUD90 billion smaller in GDP terms than it would likely have been without the pandemic.¹¹

Despite suffering the largest economic contraction since the Great Depression in June 2020 (of 7.0 per cent in quarterly terms), the policy response made the pandemic's impact on the Australian economy mild,¹² relative to many other countries. For instance, in the June quarter 2020, there were falls of 12.2 per cent in New Zealand, 11.5 per cent in Canada, 13.8 per cent in France and 19.8 per cent in the United Kingdom (Commonwealth of Australia 2020). These declines in output have been many times larger and much more widespread globally than during the GFC in 2008–09. In annual terms, Australia's revised GDP growth figure in 2019–20 (of 0.0 per cent) highlights just how mild the contraction was compared with New Zealand (–1.7 per cent), the United States (–3.5 per cent), Canada (–4.8 per cent) and the United Kingdom (–9.8 per cent).

Equally, the contemporaneous rise in the household savings ratio, which increased from around 0 per cent to over 20 per cent during the middle of 2020,¹³ reflects the resilience of household incomes in the face of the pandemic-induced restrictions on economic activity.

10 Real GDP declined from \$1,980,942 million in 2018–19 to \$1,980,866 million in 2019–20, which rounded to 0.0 per cent at one decimal place.

11 That is, applying the average annual growth rate of 3.1 per cent to 2019–20 and 2020–21 (of the 2018–19 base year), Australia's GDP in 2020–21 would have been approximately \$90 billion larger than the actual outcome (ABS (2022a)).

12 The June 2020 quarter contraction of 7.0 per cent is far greater than previous quarterly contractions in the 1991 and 1983 recessions, and not seen since the Great Depression. In annual terms, the 0.3 per cent contraction in 2019–20 is equivalent to the 1990–91 recession in annual terms (–0.4 per cent) and smaller than the 1982–83 recession (–2.2 per cent).

13 For a definition of the household savings ratio, see: www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5202.0Main+Features12007?OpenDocument.

9. AUSTRALIA'S FINANCIAL MANAGEMENT CHALLENGES POST-COVID

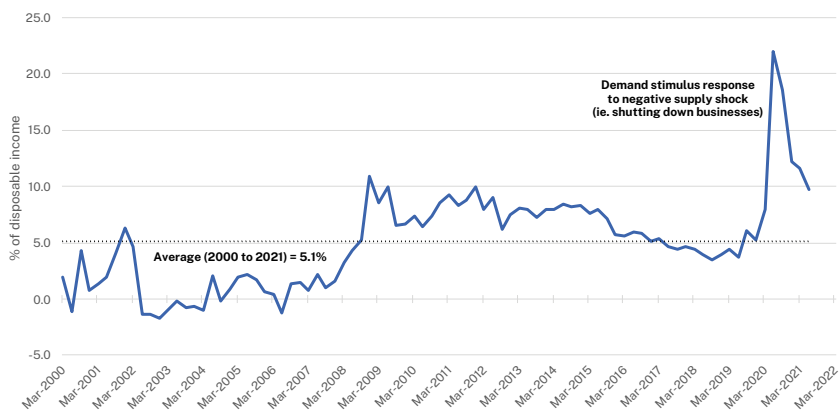


Figure 9.7: Household savings ratio, 2000–2021.

Source: ABS (2021a), September 2021 quarter.

Despite Australia's fiscal stimulus, which included the JobKeeper Program (see Box 9.1), Australia's unemployment rate rose sharply in the middle of 2020. Taking a longer perspective, the rise wasn't particularly out of the ordinary. For example, Australia's unemployment rate peaked at 11.2 per cent in December 1992 following the 1990–91 recession. More recently, Australia's unemployment rate began a long decline from over 7 per cent in the early 2000s to be (albeit briefly) under 4 per cent at the height of the first phase of the mining boom (in 2007) where the economy operated (albeit briefly) under (arguably) Australia's most flexible industrial relation laws since state wage boards in the 1920s extended the Harvester Judgement of 1907.¹⁴ As the unemployment rate rose in 2008–09 with the GFC, the Rudd Government introduced a less flexible system of labour laws which (arguably) held Australia's unemployment rate above 5 per cent until the current post-COVID decline.

Australia's unemployment rate only briefly exceeded 7 per cent at the height of the COVID disruption in mid-2020. The Commonwealth Government's JobKeeper Program allowed large parts of the economy (such as in tourism and hospitality) to be placed in 'deep freeze' and, hence, avoided a potentially much higher unemployment rate. The JobKeeper Program was wound back towards the end of 2020.

¹⁴ The *Workplace Relations Amendment (Work Choices) Act 2005* (Cth) came into effect on 27 March 2006 and was repealed (and replaced by the *Fair Work Act 2009* (Cth)) on 1 July 2009. The Harvester Judgement (*Ex parte H. V. McKay* (1907) 2 CAR 1) set in train the development of industry-wide (in the 1920s), and later, economy-wide, minimum wages in Australia. The decision can be found here: www.fwc.gov.au/documents/history/1907_2_car_1.pdf.

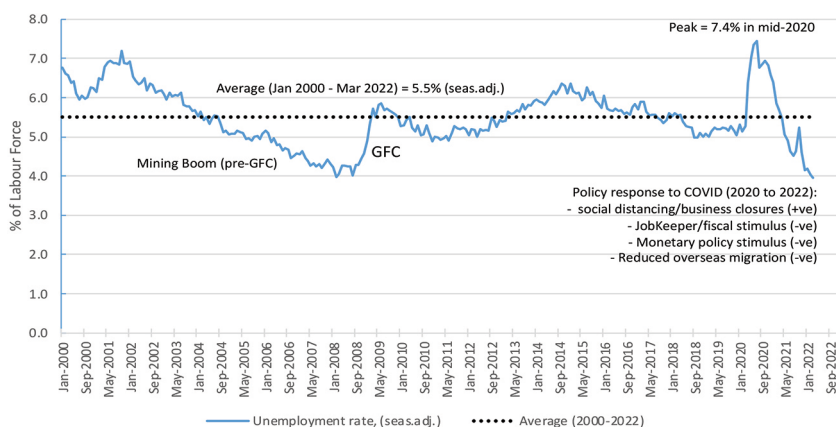


Figure 9.8: Unemployment rate, 2000–2022.

Source: ABS (2022c).

Given the shocks Australia has endured in the past two years, it is remarkable that Australia's unemployment rate had declined to 4 per cent by February 2022 and remains at this level in March 2022. One explanation for this low rate is the shutting of the international border to overseas students and workers, and in particular seasonal workers from Asia and the Pacific Islands through the COVID period. While acknowledging that 'the closure of borders has affected some segments of the labour market' (e.g. hospitality and agriculture), the RBA Governor Philip Lowe has argued that the main driver of the current low unemployment rate is not the closed borders but, rather, the powerful combination of fiscal stimulus and monetary policy support 'that we haven't seen for a long time' (Duke 2022) (Figure 9.8).

Another important influence on the reported unemployment rate is the participation rate, which declined in April–May 2020 and again in September–October 2021 as workers opted to leave the labour market during the economic difficulties. All else equal, a decline in the participation rate will result in a lower than otherwise measured unemployment rate. An alternative way to look at the 'double dip' in the participation rate is to look at the number of Australians over 15 years not in the labour force through the same period. That number increases from 7 million to just under 7.8 million in April 2020 and from 7 million to just under 7.5 million in September 2021 (Figure 9.9). The number not in the labour force fell to just below 7 million in December 2021 and is currently marginally above 7 million as at March 2022.

9. AUSTRALIA'S FINANCIAL MANAGEMENT CHALLENGES POST-COVID

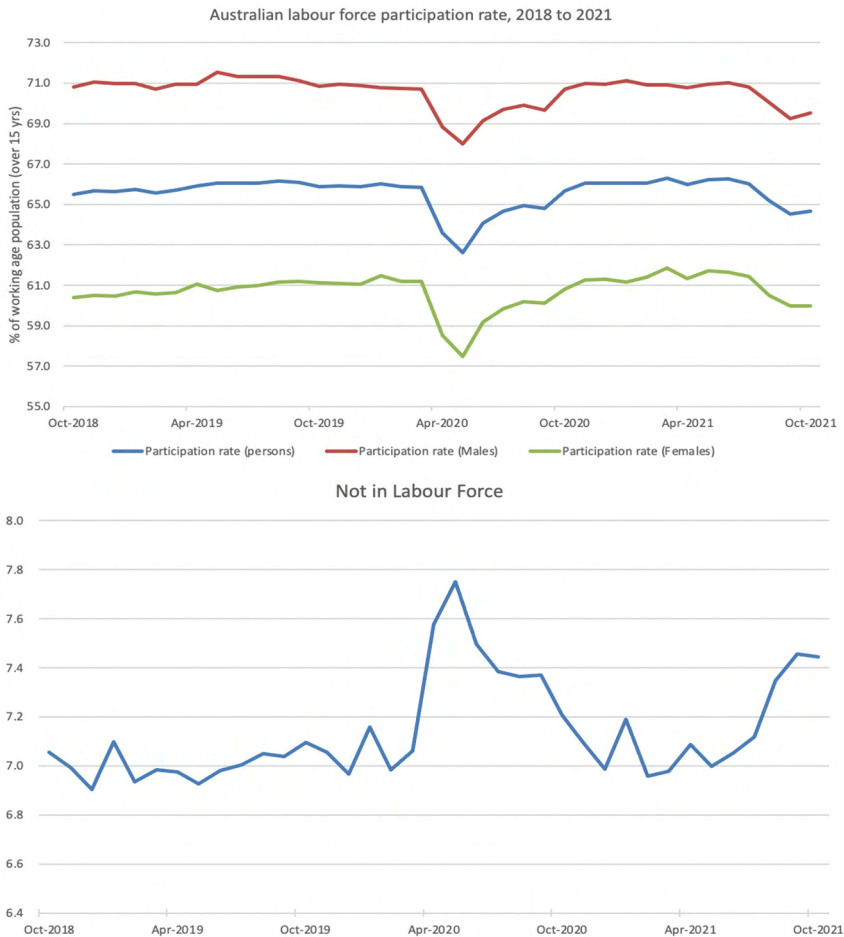


Figure 9.9: Participation rate (top) and population ‘not in labour force’ (bottom), 2018–21.

Source: ABS (2022c) (seasonally adjusted, LHS; original, RHS).

Prospects for population growth

Since 1982, Australia’s population has increased by 1.4 per cent per year, on average. Of that increase, 1.0 per cent per year, on average, can be attributed to natural increase (births less deaths). A simple supply-side model for thinking about economic growth is the ‘3 Ps’ framework, where economic growth is caused by growth in population, labour force participation and productivity. In this model, in very simple terms, since the 1960s Australia’s

population growth has contributed roughly half of Australia's growth in GDP with the remainder attributed to productivity and participation growth (Figure 9.10).

Accordingly, a potentially significant future drag on economic growth could come from a softening in population growth post-COVID. Overseas migration has been a critical part of Australia's population and economic growth, as working-age migrants are favoured under Australia's migration policies. That said, rapid population growth also imposes costs, notably in terms of social overhead capital, so its stimulus to economic growth—notably in per capita terms—is likely to be far lower than the 3 P model would suggest.

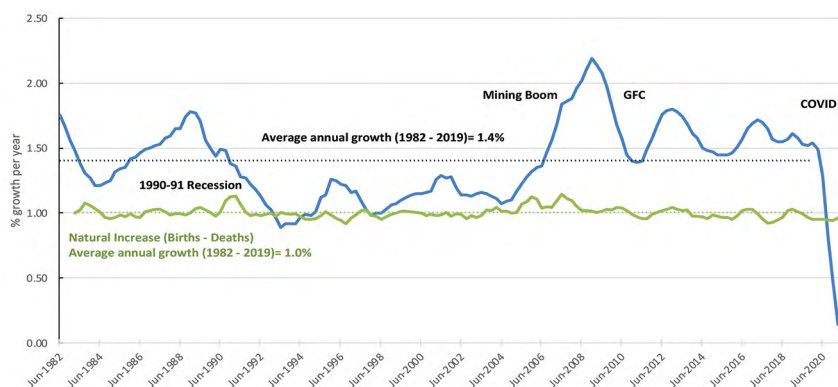


Figure 9.10: Australian population growth since 1982.

Source: ABS (2021c).

The 2021 Intergenerational Report (IGR), which is prepared by the Australian Treasury Department, was released after the initial short-term effects of the COVID shock were evident. The long-term impacts of COVID on the fundamental drivers of economic growth are, of course, as yet unknown.

The central conclusion of the IGR is that COVID will have an enduring negative effect, primarily via a slower rate of population growth compared to the past 40 years. In summary, the IGR concludes:

The COVID-19 pandemic is causing a demographic shock that will be evident in Australia's population for years to come, with temporarily lower inward migration as well as expected delays in women having children. Alongside the shock from the COVID-19

pandemic, the long-run fertility rate is expected to be lower than previously estimated. Migration is expected to continue to be the largest source of population growth in the long term. (Commonwealth Treasury 2021:13).

While migration plays a role in offsetting Australia's ageing population, the effect is tempered by the fact that migrants are generally of working age. The 2021 IGR has forecast a flat rate of overseas migration, at 235,000 overseas migrants per year from the mid-2020s until 2060–61. Therefore, Australia's rate of migration as a proportion of the population is forecast to decline from around 0.9 per cent of the population in the mid-2020s to around 0.6 per cent of the population in 2060–61.¹⁵

The bulk of these migrants are assumed to be of working age, adding to Australia's labour force. Treasury IGR analysis shows that an increase in overseas migration benefits the budget because Australia's migration program targets skilled migrants of working age. Obviously, that does not imply migration necessarily raises overall welfare, given the costs noted above.

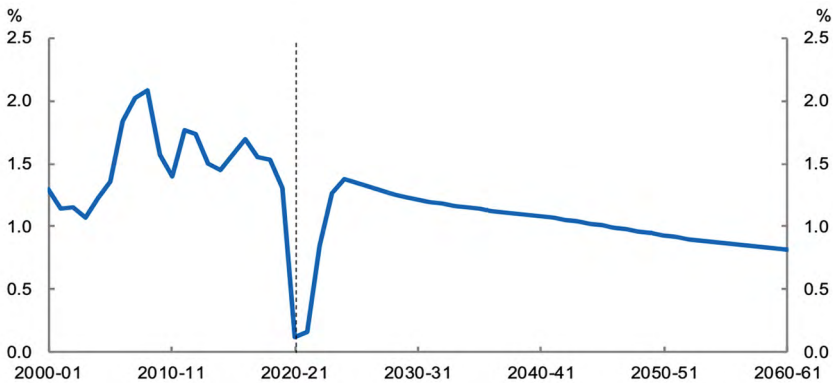


Figure 9.11: Australia's population growth rate, IGR 2021 forecast.

Source: ABS (2021d); Commonwealth Treasury (2021).

15 The 2022–23 Federal Budget (released 29 March 2022) estimated Net Overseas Migration (NOM) as follows: –89,900 in 2020–21; 41,000 in 2021–22; 180,000 in 2022–23; 213,000 in 2023–24; 235,000 from the mid-2020s (Commonwealth of Australia 2022).

Federal budgets during COVID

The initial and subsequent fiscal response to COVID had (at the end of 2021) amounted to well over AUD300 billion in health, household and business support to keep businesses in business and Australians in jobs. About one-quarter of the total fiscal expenditure related to the JobKeeper Program (AUD89 billion), and a further AUD50 billion was ‘spent’ in tax relief for households and small businesses (Box 9.1).¹⁶

Box 9.1: Key measures in the Commonwealth’s COVID-19 response package

- Total expenditure was AUD311 billion.
- The JobKeeper Program totalled AUD89 billion, supported 3.8 million workers and is estimated to have reduced total employment losses by 700,000 at the peak of the crisis in April–July 2020.
- More than AUD50 billion in tax relief for households and small businesses.
- Support for business including tax relief, accelerated depreciation for new capital purchases, 50 per cent wage subsidy for new apprentices and trainees (AUD1.2 billion), JobMaker Hiring Credit (AUD4 billion) (not to mention JobKeeper).
- Eased access to superannuation.
- Additional economic support payments for pensioners (AUD2.6 billion).
- Support for universities and, in particular, vaccine development (AUD1.7 billion).
- Increasing infrastructure investment pipeline by AUD10 billion.
- Supporting measures by the independent RBA including lowering the cash rate and massive bond buying program.

Source: Commonwealth of Australia (2021).

The economic contraction reduced forecast annual federal revenues substantially, from AUD551.0 billion (as at the 2019–20 Budget) to AUD482.1 billion (as at the 2021–22 Budget). And the measures to support Australian businesses and households increased government expenditure to unprecedented levels, from AUD533.2 billion (as at the 2019–20 Budget) to AUD588.7 billion (as at the 2021–22 Budget). The result is an underlying cash balance that, after a decade of painstaking work to stabilise it post-GFC, deteriorated by (on average) AUD124 billion per year over the period 2019–20 to 2022–23 (Table 9.1).

¹⁶ Tax cuts are sometimes referred to as ‘tax expenditures’, thus equating notional foregone revenues with cash outlays, which is obviously questionable both analytically and in practice.

Table 9.1: Underlying cash balance, as at 2019–20 and 2020–21 budgets.

Underlying cash balance (AUD, \$b)	2019–20	2020–21	2021–22	2022–23	2023–24
2019–20 Budget	7.1	11.0	17.8	9.2	n/a
2020–21 Budget	-85.3	-161.0	-106.6	-99.3	-79.5
Difference	-92.4	-172.0	-124.4	-108.5	n/a

Source: Commonwealth of Australia (2019, 2020).

The fiscal balance, which is a more accurate measure of the annual call on borrowings (because it accounts for the effect of net infrastructure investment) worsened from a sliver of a surplus in 2018–19 (0.1 per cent of GDP) to a deficit of –7.9 per cent of GDP in 2020–21 before (its forecasted) improvement to less than 3 per cent of GDP in 2024–25. Despite that hoped-for improvement back towards fiscal balance, any annual negative deficit figure adds to the call on borrowings and, thus, the stock of net debt (all things being equal).

However, as a result of the unprecedented fiscal loosening that began in the first half of 2020 (i.e. 2019–20), the actual net debt outcome in 2018–19 of 19.1 per cent of GDP has deteriorated to a forecast 40.9 per cent of GDP in 2024–25, while gross debt is forecast to be even higher at 50.0 per cent of GDP by mid-decade (Commonwealth of Australia 2021: Statement 11, Table 11.4).¹⁷ Taking the longer view, from an impressive *negative* net debt position of almost 4 per cent of GDP in 2007–08, the Commonwealth's budget position in the general government sector has worsened by 45 per cent of GDP in 17 years (Figure 9.12).

In dollar terms, Commonwealth net debt will increase from a forecast AUD326.1 billion in 2022–23 (as at the 2019–20 budget) to AUD835.0 billion in the same year (as at the 2021–22 budget). And Commonwealth net debt is now forecast to be just under AUD1 trillion in 2024–25.

¹⁷ Gross debt is defined as the total face value of Australian Government Securities (AGS) on issue. Unlike some state and territory governments, there is not a large difference between net debt and gross debt as the Commonwealth owns too few government-owned corporations (i.e. assets) to offset the gross debt figure.

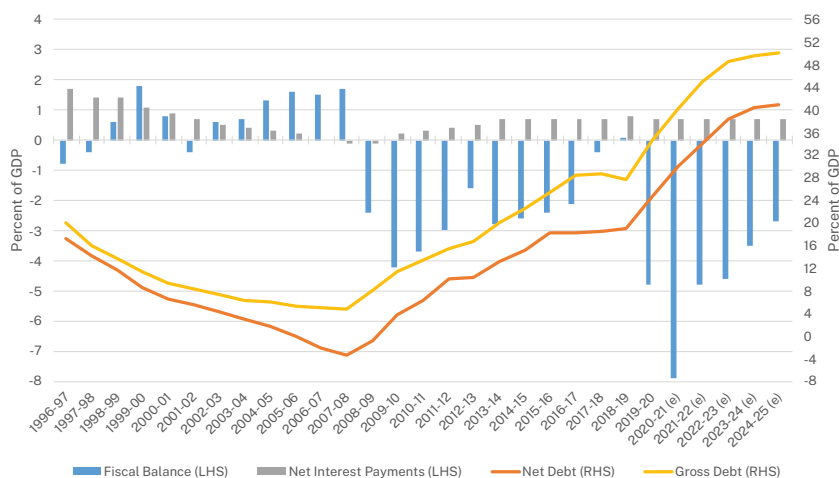


Figure 9.12: Commonwealth budget parameters, 1996–97 to 2024–25.

Source: Commonwealth of Australia (2022).

International comparison of budgets

That said, compared to its OECD and major trading partner peers, Australia’s fiscal position has moved from being ‘very strong’ to just ‘strong’. For example, Australia’s immediate deterioration in the fiscal balance (between 2019–20 and 2020–21) was relatively mild at 6.1 per cent of GDP. While China (–5.5 per cent of GDP) and Korea (–3.6 per cent) experienced a smaller deterioration than Australia, the worsening in the fiscal balance was greater in many other advanced economies, including the United States (–12.4 per cent), the United Kingdom (–14.6 per cent) and Canada (–19.6 per cent) (see Figure 9.13).

Taking a slightly longer view, Australia also compares well when looking at the forecast deterioration in net debt between 2019–20 and 2025–26. While Australia’s net debt position worsens by ‘only’ less than one-fifth of GDP, six of Australia’s peers worsen between just under one-quarter to almost one-third of GDP, with the United Kingdom (31.7 per cent) and New Zealand (30.4 per cent) both exceeding a 30 per cent deterioration.

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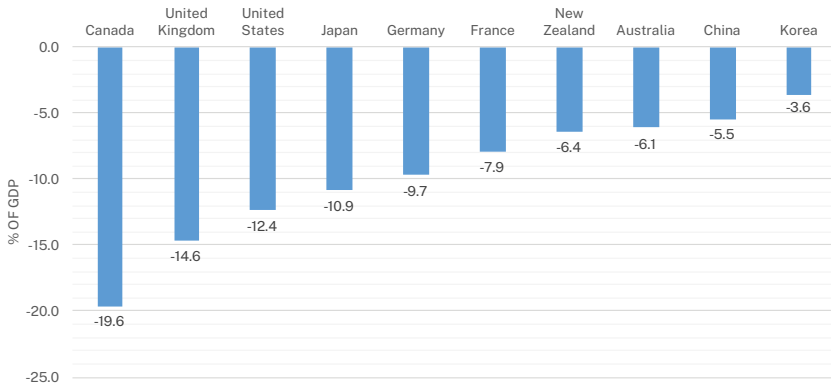


Figure 9.13: Fiscal balance deterioration between 2019 and 2020.

Source: IMF (2021).

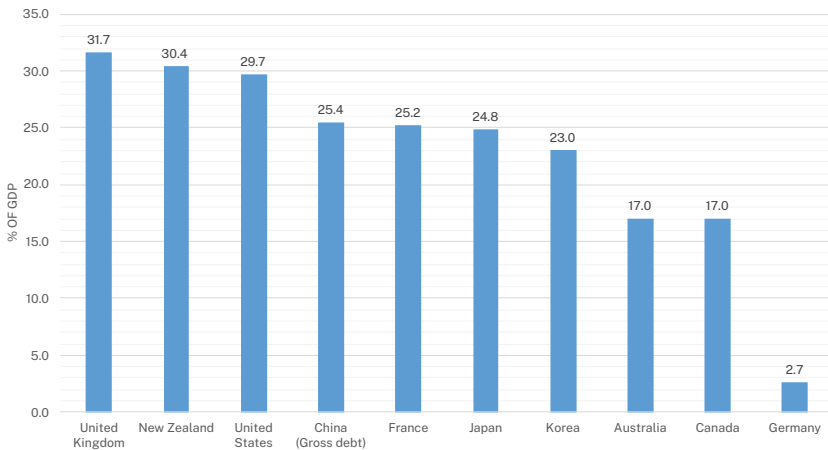


Figure 9.14: Net debt deterioration between 2019 and 2025.

Source: IMF (2021).

State and territory budgets

Taking into account the position of Australia's second and third tiers of government, Australia's overall fiscal position collapsed in the June and September quarters 2020, when the total quarterly fiscal deficit exceeded AUD100 billion. The annual calendar year fiscal deficit in 2020 was AUD266 billion or 13.3 per cent of GDP.

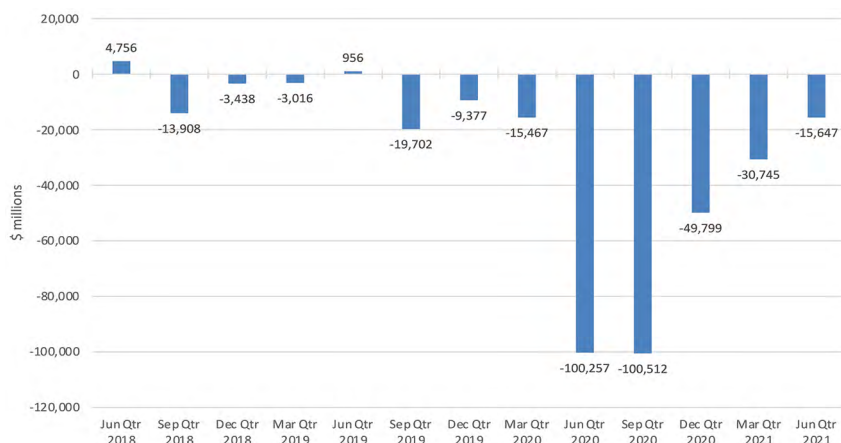


Figure 9.15: Fiscal balance, all levels of government (June 2018–June 2021).

Source: ABS (2021b).

Economic and budget outlook

Domestic economy and trade

Is the COVID crisis sufficient to trigger another wave of economic and fiscal reform? Is Australia still exceptional in economic policymaking terms or is the widely accepted two-decades-long ‘reform period’ from the early 1980s until the early 2000s an anomaly? And what luck can Australia hope to rely on over the next three decades towards mid-century?

While Australia still possesses enormous reserves of natural resources, it seems that the global trend will be away from coal-fired electricity generation towards renewables of varying efficiency and cost. Moreover, the likelihood of a mining boom the size of the 2004–2011 vintage recurring seems remote given reductions in China’s growth rates, and its shift to a more services-based economy, and the bottlenecks which hamper India’s growth performance. On the other hand, Russia’s full-scale invasion of Ukraine has presented opportunities for Australia to be a reliable supplier of energy resources, rare earths and processed metals to countries formally reliant on Russian supplies.

Luck is not easily forecast. Much of Australia's good fortune has been built on steady population growth and occasional sustained surges in global demand for goods or services that we are good at providing—from wool in the 1950s, to iron ore and metallurgical coal, thermal coal, and (lately) natural gas, lithium, education services and tourism.

More fundamentally, it is likely that Australia's robust democratic system will continue to foster generally good policy outcomes although those deliberations are always subject to the zeitgeist of global political and cultural preferences.

The future for productivity growth is highly uncertain and relates, in the long run (all things being equal) to the rate of technological progress (or innovation), as well as on the capacity of the economy to shift output from lower to higher productivity uses. On the one hand, the pandemic has potentially pulled forward productivity- (and welfare-) enhancing developments in relation to the use of digital infrastructure and working from home. On the other hand, COVID has interrupted schooling and university educations, as well as apprenticeships and early career training. The productivity-enhancing factors could still predominate over time, so long as policies in transport and land use planning and industrial relations keep pace with technological progress and cultural developments.

Second, it may be that we were already on a somewhat slower growth trajectory, partly because of lower multifactor productivity growth and a (difficult to entirely explain) reduction in capital formation. Were there also slower population growth going forward, that would aggravate the slowdown (see Figure 9.16).

Finally, Australia, as a relatively small open economy, relies on a free and dynamic global trading system, including for services trade (such as education services). Moreover, Australia has rarely prospered when the world economy is in the doldrums. Prior to the pandemic there was some trade tension between Australia and China, with China taking a number of measures against Australian exports (Table 9.2). To the extent that trade tensions arise and persist, then Australia's growth prospects are reduced. It will be interesting to see how Australia's tertiary sector recovers in 2022 and whether the number of Chinese students attending Australian universities returns to pre-COVID levels.

DILEMMAS IN PUBLIC MANAGEMENT IN GREATER CHINA AND AUSTRALIA

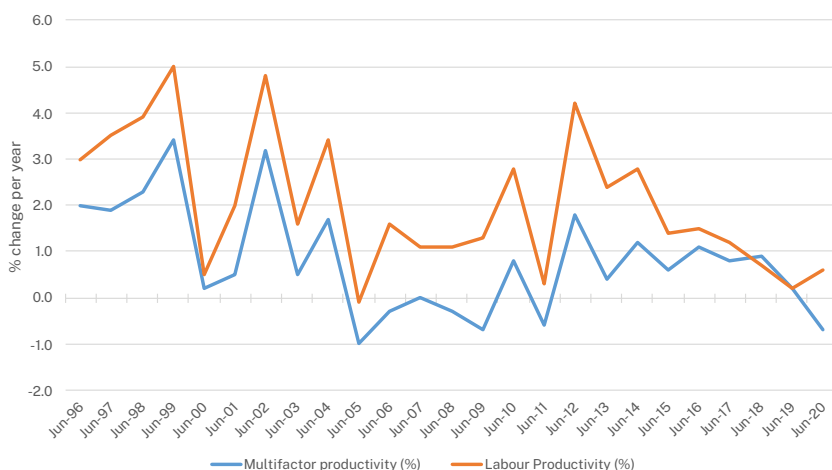


Figure 9.16: Market sector productivity growth, 1996–2020.

Source: ABS (2020).

Table 9.2: Recent trade tensions between Australia and China.

Commodity/Sector	Summary of Chinese measures against Australia
Barley	80% tariff; CBH and Emerald Grain suspended; has effectively suspended the AUD1 billion export market.
Beef/lamb	8 abattoirs blocked; 4 beef exporters blacklisted; partly COVID de-listing; AUD3 billion export industry.
Wine	Hold-ups at ports (unofficial ban); then 200% tariff for ‘dumping’ + 6% tariff for ‘countervailing duties’; AUD1.3 billion industry effectively halted.
Cotton	Unofficial ban with buyers told to stop buying Australian cotton; rumours of impending 40% tariff; AUD800 million export industry.
Lobster	Unofficial ban with lobsters left on the tarmac at customs; importers warned off buying Australian lobster; AUD771 million export market.
Timber	Stronger quarantine measures (detection of bark beetle) resulted in 4 Australian states banned from exporting; AUD1.9 billion industry.
Coal	AUD700 million in coal shipments stranded waiting for port entry; fourth quarter (2020) exports had fallen by 82% and Australia’s largest coal port, Newcastle, had completely stopped sending coal to China altogether. AUD14.5 billion export trade.
Foreign students	Tourists have been discouraged from visiting Australia while Chinese students have been told to look at other countries for their education — although COVID has prevented this from occurring at the moment.

Source: BT (2020).

Monetary policy prospects

The RBA acted to support the economy during COVID by keeping its benchmark interest rate at, effectively, zero per cent and expanding its balance sheet. In its most recent *Statement on Monetary Policy* (November 2021), the RBA stated that the current (end of 2021) package of monetary policy measures are accommodative.

By lowering the structure of interest rates, funding costs across the economy remain very low, despite the recent rise in market yields, and the exchange rate is lower than it would otherwise be. (RBA 2021:4)

To that extent, monetary and fiscal policy in Australia worked in tandem during the pandemic, increasing their efficacy. In contrast, during the GFC, the Rudd Government's fiscal stimulus was partly offset by the RBA cautious monetary stance, contributing to an appreciation in the exchange rate which blunted economic growth.

Global interest rates have increased substantially since 2021 when the Federal Reserve Board in the United States began to wind back its asset purchase program (Federal Reserve 2021). It increased its Federal Funds rate from an historic low of 0.1% in July 2021 to 4.65% in March 2023. The RBA has followed suit raising the cash rate ten times (or by 3.5 percentage points in total) between May 2022 and March 2023, from an historic low of 0.1% to 3.6%.

Prospects for fiscal management

As discussed, absent another major negative economic shock, Australia's fiscal position is forecast by the Commonwealth Treasury to stabilise and then improve by the end of the decade. However, there are several risks to this outlook, most notably the possibility of slower population growth, which affects both the revenue and expenditure sides of the budget, and higher health expenditures to manage population ageing.

In its latest *Beyond the Budget 2021–22* report, the independent Parliamentary Budget Office (PBO 2021) found that while the Commonwealth Government's fiscal position is projected to improve over the decade, the enduring impact of COVID remains 'profound and uncertain'. The PBO found that:

- The level of government debt matters, as does the quality and efficiency of public spending, whether for services or (infrastructure) investments;
- It would be more difficult for Australia to maintain a fiscally sustainable position if future shocks are consistently larger or more frequent; and
- Structural increases in payments, especially related to the National Disability Insurance Scheme (NDIS) are a real threat to fiscal sustainability.

Looking at the Commonwealth budget position soberly, there is no doubt that Australia's fiscal position is more vulnerable than at any time this century. In addition, Commonwealth payments for aged care and the NDIS continue to rise faster than economic growth. Moreover, the state and territory budget positions are also more vulnerable because of COVID.

There also remains some uncertainty over Australia's future population growth trajectory. While Australia's rate of natural increase is positive and stable, it is low, with the prospects for fertility likely to remain unchanged. On the other hand, the good prospects for longevity are likely to place pressure on the budget position because of the call on increased welfare payments without a corresponding increase in income tax revenues. And while there is obviously scope for the Commonwealth Government to increase revenues as a share of GDP, there is an economic cost to doing so,¹⁸ especially since overall revenue from all three levels of government exceeds one-third of GDP already (IMF 2021).¹⁹

Did Australia over- or under- do it?

Government had a duty to support Australians

After a tumultuous two decades of riding the terms of trade roller-coaster, the moment it was required Australia had the economic and fiscal firepower to shut down large sections of the economy and pay citizens to stay at home. Relative to its advanced economy peers, Australia began 2020 in a strong

18 A well-known finding in economic theory is that the economic cost of a tax rises with the square of the tax rate.

19 The October 2021 edition of the IMF Fiscal Monitor estimates Australia's general government revenue at 36.1 per cent of GDP in 2020 and 34.3 per cent of GDP in 2021 (see IMF 2021:Table A5). This level is roughly in line with the G7 economies average and 10 percentage points below the Euro Area average.

position, in terms of its economic growth rate, the unemployment rate and fiscal strength. Population growth, which averaged 1.6 per cent per year over the three years before COVID, was also relatively strong.

Perhaps partly as a result of this strength, it could be argued that Australia's fiscal and monetary response to the pandemic has been, with the benefit of hindsight, overdone. That said, the Commonwealth Government's original expectation was to go much further in terms of fiscal support, for example budgeting for a far higher take-up of the JobKeeper Program than was ultimately realised.

The 2022–23 Federal Budget, delivered on 29 March 2022, showed a significant improvement in the fiscal outlook. There has been a AUD103.6 billion improvement in the underlying cash balance in the general government sector between the previous year's mid-year update and the 2022–23 Budget. The turnaround has been driven by stronger economic conditions, higher resources prices and a stronger than expected labour market recovery (Commonwealth of Australia 2022).

There is no doubt that the Australian Government (and state and territory governments) needed to respond to the consequences of social distancing and other policies that had not been seen in Australia since the Spanish Flu pandemic that followed World War I. And in that sense, the Australian Government and its state counterparts had no alternative. After all, these governments were shutting down shops and workplaces in the pursuit of a greater good; that is, taming the pandemic and 'flattening the curve' to preserve the effectiveness of Australia's health system.

In this regard, the Commonwealth had a duty to compensate citizens via its AUD311 billion fiscal package for, essentially, three reasons.

- First, because the decision to shut those non-essential economic activities was one the government took, rather than the owners of those businesses, and so it was causing costs for which it should bear responsibility.
- Second, because this was an uninsurable event, and the government, with its capacity to smooth costs over time, was the least-cost risk bearer, just as it would be in a war.
- Third, because if compensation hadn't been provided, the social fabric would have been shredded and confidence in government shattered, causing enduring social and political problems and undermining policy effectiveness for years to come.

Lessons from the GFC stimulus

That said, the justification for the intervention doesn't answer the question whether the Commonwealth and/or state and territory governments over- or underdid it. To answer this question, first it should be recognised that any public expenditure carries an opportunity cost including the cost of borrowing and raising future taxes to pay back those borrowings. A further issue to consider is the timing of the stimulus. The COVID spending largely avoided the pitfalls of a large part of the GFC spending, because it was predominantly expenditure- rather than investment-based and, therefore, was 'shovel ready' in the sense that the money was paid directly to individuals and business owners.

That said, there is some evidence that the JobKeeper payments were overdone. Many businesses, for example, paid back the JobKeeper moneys that they had claimed voluntarily.²⁰ And, as discussed above, the Australian Household Savings Ratio increased markedly from around zero per cent of disposable income at the beginning of 2020 to over 20 per cent by mid-2020, reflecting the supply-side nature of the economic shock (see Figure 9.7 above).

However, in reality, it is unlikely that governments had the time in which to design a better targeted set of measures. And the Commonwealth did adjust eligibility as conditions stabilised. Overall, the most that can be said is that the government adopted a risk-averse approach, preferring to err on the side of doing too much than too little. Given the almost complete uncertainty which permeated policymaking during this period, and the potentially catastrophic consequences had the response been underdone, that choice may well have been wise, though it (and the details of the response) will be debated for years to come.

Conclusion — where to from here?

Australia's economic future remains bright. While it's true that Australia will need to 'remake its case' to overseas citizens contemplating a better life elsewhere, it's not a hard case to make—after all, Australia remains a relatively stable, tolerant and safe democracy full of opportunity and far

20 Ultimately, dozens of ASX-listed companies voluntarily returned (albeit with some public reputational pressure) JobKeeper payments to the Commonwealth Government.

away from the turmoil in Eastern Europe and other parts of the world. Accordingly, with a return to a steady population growth rate of 1–2 per cent per year and sound economic and budgetary policy settings, Australia has the natural resource endowments, institutional frameworks and good fortune to continue to prosper.

In relation to population growth, the 2021 IGR has been, arguably, too cautious in its post-COVID population growth forecasts, most notably in relation to its numerical (as opposed to proportional) migration ceiling assumption of 225,000 per year. The threats to the economy from COVID do not appear to be enduring and, indeed, some impacts might prove to be positive (such as the structural shift to working from home which will draw more workers into the labour force). These developments, not possible perhaps even a decade ago (e.g. due to not enough internet bandwidth, too much communications latency) have enhanced our ability to absorb the COVID shock and probably reduced the lasting impacts, facilitating a very speedy recovery. Therefore, the threats to Australia's fiscal sustainability are just as likely to emanate from 'bad policy' as some future negative shock.

As at end-November 2021, more than 85 per cent of Australians over 16 years have been fully vaccinated against COVID-19.²¹ And, as at 31 March 2022, Australia's internal borders are open to commerce and travel, and virtually all social distancing measures and related policies have been wound back (e.g. checking-in or showing vaccination certificates at cafés and supermarkets). That said, new Omicron subvariants remain a threat to economic growth.

As at early April 2022, it is also looking increasingly like the Australian economy will return to its pre-COVID dynamism. As argued, the recession was a result of putting the economy in a 'deep freeze', which may have some lasting economic, social and health consequences but where, by and large, the economy, once the constraints are removed, is likely to snap back.

There are a number of caveats to this positive outlook, however.

First, it may be that we were already on a somewhat slower growth trajectory, partly because of lower population growth and partly because of lower productivity growth. And given that Australia's long-run trend of increasing

21 If measured as a proportion of the total population, the equivalent fully vaccinated figure is 72 per cent.

labour force participation seems to be coming to an end, the three sources of (supply-side) growth—population, productivity and participation—may need boosting via policy measures this decade.

Second, the IGR is relatively optimistic in terms of the fiscal outlook, essentially because it assumes spending growth can be capped, and in the long run, reverts to some normal level. However, the experience is that restoring fiscal balance is extremely hard, and falls in the outlays/GDP ratio are very rare (see Appendix A). Rather, each increase in spending during a shock has tended to persist.

For instance, the IGR seems to ignore large future spending pressures such as the NDIS, aged care and, potentially, defence spending. Further, the IGR also draws comfort from the fact that our debt/GDP ratio is low by OECD standards, which is no doubt true. However, it should also be said that the fact that (public and private) debt ratios are now so high internationally may well make the world economy more shock-prone, and we would not be spared those shocks, which could make even our (relatively) lower debt/GDP ratio dangerous.

If it is true that global economic shocks are now occurring more frequently, there may not be enough time for the fiscal situation to improve before the next shock hits, even if the IGR's estimates prove reasonably accurate. In other words, to the extent that global shocks are more frequent because economies and societies are ever more interlinked via trade and travel, then global economic shocks will reverberate at stronger levels of fiscal and economic strength (i.e. lower debt levels). It follows that, if we have less time in future to recover from shocks, we need to be more prudent when we first respond to them.

Current interest rates are very low compared to the projected rate of growth of nominal tax receipts, which would normally be viewed as making projected public debt levels, both at the Commonwealth and state/territory level, sustainable. However, interest rates are now nudging up, seemingly returning to the normalisation process which had begun before COVID struck. While it's true that both the Commonwealth Treasury and the PBO see interest payments as a percentage of GDP remaining stable (at around 1 per cent of GDP) over the next decade, those assumptions are based on current interest rate forecasts. A further shock might see interest rates spike if issues arose about government solvency (e.g. in the Eurozone).

Also, the very low rates that now prevail may be partly a symptom of widespread risk aversion; that is, central banks are reacting to (and in the process perhaps aggravating) widespread investor pessimism, and a related decline in long-term growth prospects, which would both weigh on the actual growth of tax receipts and have obvious implications for some of the stimulus spending (e.g. on capacity expansion investment in infrastructure).

A persistent danger to Australia's fiscal sustainability has been the political desire for the 'mega project'—from underground road and rail lines, interstate fast train networks and submarines. While there has been some reform in recent years towards establishing institutional counterweights to political opportunism, the days of the mega project do not seem to be numbered (with Brisbane's marginal-at-best Cross River Rail project well underway). Whether the Australian federation will continue to work through reforms to infrastructure investment remains to be seen; as things currently stand, any disciplined approach to infrastructure decision-making seems to be in abeyance, increasing the likelihood of public expenditure being committed to very large-scale projects whose costs are far greater than the benefits. In this regard, there is a need to further entrench the requirement of independent, public reviews of proposed large infrastructure projects that utilise best practice tools such as cost–benefit analysis.

Finally, if it is true that monetary policy will start to normalise, albeit slowly, while fiscal policy remains stimulative, both at a Commonwealth and state level, then monetary and fiscal policy will be working at cross purposes. The result, as in 2010, will be an appreciation in the real exchange rate which will nullify the stimulative effect of the fiscal spending while still leaving its burden in terms of increasingly costly to finance public debt.

In summary, while one can argue about individual components of the COVID stimulus package, the overall approach of compensating for the costs of government decisions was entirely sensible. And seen in that light, the package was not a stimulus package but rather compensation or assistance in bearing temporary costs and hardships.

Now that the worst is over, the sooner Australian public policy returns to its 'exceptionalist roots' and soberly faces, and prepares for, the possibility of slower growth in its '3 Ps', faster growth in healthcare expenditures and rising global interest rates, the more likely it is that a prosperous future lies ahead.

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Appendix

Table 9.A1: Commonwealth Government general government key budget parameters, 1996–97 to 2024–25.

Year	Underlying cash balance	Fiscal balance	Net debt	Net interest payments
1996–97	-1.1	-0.8	17.3	1.7
1997–98	0.0	-0.4	14.1	1.4
1998–99	0.6	0.6	11.6	1.4
1999–00	2.0	1.8	8.7	1.1
2000–01	0.8	0.8	6.6	0.9
2001–02	-0.1	-0.4	5.6	0.7
2002–03	0.9	0.6	4.2	0.5
2003–04	0.9	0.7	3.1	0.4
2004–05	1.5	1.3	1.7	0.3
2005–06	1.6	1.6	0.0	0.2
2006–07	1.6	1.5	-2.2	0.0

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Year	Underlying cash balance	Fiscal balance	Net debt	Net interest payments
2007-08	1.7	1.7	-3.4	-0.1
2008-09	-2.1	-2.4	-0.9	-0.1
2009-10	-4.2	-4.2	3.7	0.2
2010-11	-3.4	-3.7	6.4	0.3
2011-12	-2.9	-3.0	10.2	0.4
2012-13	-1.2	-1.6	10.4	0.5
2013-14	-3.0	-2.8	13.1	0.7
2014-15	-2.3	-2.6	15.1	0.7
2015-16	-2.4	-2.4	18.3	0.7
2016-17	-1.9	-2.1	18.3	0.7
2017-18	-0.5	-0.4	18.5	0.7
2018-19	0.0	0.1	19.1	0.8
2019-20	-4.3	-4.8	24.7	0.7
2020-21 (e)	-7.8	-7.9	30.0	0.7
2021-22 (e)	-5.0	-4.8	34.2	0.7
2022-23 (e)	-4.6	-4.6	38.4	0.7
2023-24 (e)	-3.5	-3.5	40.4	0.7
2024-25 (e)	-2.4	-2.7	40.9	0.7

Source: Commonwealth of Australia (2020).

10

Performance budgeting in China

Meili Niu and Peipei Zhang¹

Abstract

From the 1990s to today, performance budgeting has been popular among public budgeting systems the world over. While each budgeting system has its own application of performance budgeting, the common attribute is linking performance information to resource allocation. China started its performance budgeting reform in 2003. However, it uses budget performance management (BPM) in a unique way. This study examines the evolution of BPM over the past two decades in China. Our study finds, consistent with Schick's (1998) argument, China has focused on establishing the 'basics' for a modern budgeting system rather than applying directly a New Zealand-type approach. It uses performance evaluation to build an evidence-based budgeting management. China's experience shows that there are certain stages in building a new public management-style performance budgeting regime that cannot be skipped. Financial discipline is a necessary condition for installing performance budgeting that facilitates a degree of discretionary management by line agencies.

Keywords: performance budgeting; budget performance management; performance information use; evidence-based budgeting management.

¹ This research is supported by a grant from the National Social Science Fund of China (key project 19AZZ013, Local Government Debt Management).

Introduction

Performance budgeting has been popular in public budgeting systems around the world since the 1990s. Although the reform has gone by many names,² its key innovation is to link performance information to resource allocation (Thompson 1994; Curristine 2006, 2007; Robinson 2007). However, in practice, due to varying enabling conditions, the reform has had many metamorphoses (Melkers and Willoughby 1998; Schick 2014). Schick (1998) had previously cautioned developing countries against pursuing new public management reforms such as performance budgeting before building 'basic' budgeting and financial management systems. However, Schick did not illustrate how to build the basics for paving the way for the results-oriented reform.

Despite China's success in promoting its national economy, China did not start building a modern budgeting system until 1998 (Ma and Niu 2006). The first step of their effort was to establish a departmental budget system aimed to introduce rule-based budgeting management. In 2003, China initiated its performance-related budgeting reform. Obviously, China was not ready for a Western style of performance budgeting reform and has not referred to its approach by any of the popular terms, such as 'performance-based budgeting' or 'management for results'. Instead, China uses the term 'budget performance management' (BPM).

This study is inspired by this interesting phenomenon. We attempt to explore, in the absence of rigorous budgeting and financial management, how has China promoted BPM over the past two decades? Is China's experiment fundamentally different from performance budgeting in the rest of the world? Is it possible to adopt a performance budgeting system without 'basics', as Andrews (2006) argues?

This chapter is developed as follows. We first present the evolutionary approach China adopted in introducing BPM. Then, we explain the rationale for the reform strategies applied in the Chinese budgeting system. After summarising our research, we discuss what we can learn from the Chinese experience.

2 In practice, besides performance budgeting, the reform has many names, such as 'budgeting for results', 'performance-based budgeting', 'result-oriented budgeting' and 'performance funding'. In this article, we call all these efforts performance budgeting to distinguish from the Chinese experience.

We use three types of data in this research: government documents, including policy guidelines for BPM; performance evaluation reports and annual line agencies' budget reports, posted on government websites; and survey data from Guangzhou city as a case study, to reveal how performance evaluation was used to improve the city's budgeting system.

Evolution of BPM in China

Budget performance management is an evolving idea in China. Similar to other government reforms, the central government innovated the idea, and encouraged local governments and some central agencies to experiment with it prior to countrywide implementation. Based on the goals and the scope of the performance evaluation undertaken, we divide China's BPM reform into three stages.

The first stage: Performance Evaluation of Fiscal Spending (2003–11)

The first stage of BPM in China was called Performance Evaluation on Fiscal Spending (PEFS). The Ministry of Finance (MOF) defines PEFS as:

finance department or line agency applies scientific and appropriate performance indicators, criteria, and methods to conduct objective and impartial evaluation on the economy, efficiency, and effectiveness of fiscal spending according to designed performance goals. (MOF 2011b)

Before the trial phase of performance budgeting, MOF studied international experience. This included sending delegations to Australia and New Zealand. In 2001, MOF started encouraging provincial governments to research performance budgeting. In 2002, MOF hosted a workshop on 'Performance Evaluation on Fiscal Spending' in Inner Mongolia, to explore how China could install performance evaluation into the public budgeting system (Wu and Li 2004).

The real trigger for the reform was the Central Party's initiative in 2003. On 10 October, the 3rd Plenary Session of the 16th Central Party Committee called for performance evaluation in the public budgeting system. While other countries rely on their legislatures to legislate reform, the Chinese Central Party provides the necessary political support to implement reforms.

Two efforts mark the beginning of PEFS. At the central level, MOF passed *Norms on Evaluating Program Spending of Ministries of Education, Science and Technology, and Culture* on 21 April 2003, and *Interim Measures on Performance Evaluation Management of Central Administrative Spending*³ on 30 September 2003. These two documents provided guidelines for the performance evaluation of selected spending by the central agencies. At the local level, Guangdong province issued *Suggestions on Further Strengthening Fiscal Expenditure Management* on 30 October 2003. In 2004, the province established a performance evaluation office and issued the *Announcement of Guangdong Province Public Spending Performance Evaluation*, establishing the performance evaluation system for public spending. Soon after, several other provinces started similar experiments.

At this first stage of China's performance budgeting reform, the PEFS had the following attributes:

- It was an ex-post evaluation after budget execution;
- The performance goals were only identified when the evaluation occurred, which means no performance goals were set during budget preparation;
- Despite references to 'the 3 Es' (economy, efficiency and effectiveness), these were undefined terms that had no force in practice.

The main goal of the first stage of PEFS

Instead of linking performance to resource allocation during budget preparation, China's first step in BPM sought to improve budget execution, particularly to address unspent budgets of line agencies. Due to the fast growth of the national economy, government revenue was increasing rapidly. At the time, China did not have a medium- or long-term budget framework, but the Budget Law required an annual based balance. Local governments tended to allocate all their revenue for expenditures, which resulted in huge growth in line agency budgets. Due to poor planning, line agencies were often unable to spend the money they were allocated (Ma and Yu 2012), and they often accumulated unspent money and rolled it over

3 In this regulation, administrative spending was limited to personnel and operational spending of each agency and spending on public safety, inspection, legal and judicial work, and foreign affairs by the central government. In 2007, China started adopting the International Monetary Fund's government finance framework to categorise budget revenue and spending. Since then, the term 'administrative spending' has been abolished.

into the following fiscal year. This represented a big unmet opportunity to deliver public value. Also, the budgeting system did not identify how much of the budget had actually been spent and on what. Moreover, compliance with the rules of program management and financial management was never systematically monitored either.⁴

At this time, China was building its central budgeting office. The foremost task was to enhance control by the Finance Department over line agencies' budgeting behaviour, involving both development of financial discipline requirements and processes for ensuring their adoption. Performance evaluation became a powerful tool for the Finance Department to enhance its control of line agencies, particularly on budget execution.⁵ During the PEFS stage, performance concerned compliance with the rules during budget execution, including whether the agency followed the financial rules for using funds and whether the procedures for developing infrastructure projects were followed. So, although China uses the term 'performance', it has a different meaning from its use in the Western world, where it generally refers to program outputs and impacts.

Scope of PEFS

Although the limited goal—to improve budget execution and compliance with program and financial management rules—was clear, in this trial adoption of performance evaluation, China made a small step towards performance budgeting. It took time for participants to understand and accept the ideas of performance monitoring and evaluation even in this limited framework and to become familiar with the skills of evaluating performance. There were several strategies used to implement PEFS.

- First, only certain governments (provinces, cities and districts) and central agencies started trials before 2005. Subsequently, more local governments joined in the experiment.

4 The Audit Department had the responsibility to audit the government budget annually, but it was not done systematically and only certain departments/programs were audited, with limited independence.

5 The typical problems regarding budget execution in line agencies were low compliance with the rules of program management, such as incomplete information, avoidance of certain procedures, embezzlement of funds, etc. These rules are usually issued by either the finance department or other authorities such as the Development and Reform Commission, which is responsible for the development of infrastructure projects.

- Second, China only focused on ‘programs’ under the line agencies and did not include personnel or operating expenditures.⁶ In the beginning, participating governments only selected a few programs to experiment on, then expanded to all their big programs (such as, say, those over RMB5 million for a province or those over RMB0.5 million for a city or district).
- Third, to better design performance indicators, the programs in the line agency budgets to be evaluated were divided into several categories, such as basic construction, government purchases, information management systems, etc. Each category was given a list of potential indicators, particularly management, output and outcome indicators.
- Fourth, four types of indicators were used in PEFS: inputs, program management, outputs and outcomes.

The indicators selected and how they were weighted are the best way to understand the purpose of PEFS. Table 10.1 and Figure 10.1 demonstrate the indicators used by central agencies and the city of Guangzhou, respectively.

As Table 10.1 shows, the most important (weighted) category was inputs (up to 45 per cent including indicators 5, 6 and 7 in Table 10.1): these refer mainly to whether the funding was fully appropriated to the line agency and spent by the agency in a timely manner.⁷ There were no outcome indicators initially and then only 15 per cent of the total weight was given to output indicators. Moreover, most ‘outputs’ were really intermediate level inputs. For example, a ‘program’ may involve purchasing computers for a library. The outputs would be the number of computers procured, instead of a measure of how the purchase contributed to teaching or learning.

6 In China, each agency has three categories of spending: personnel, operation and program. Personnel refers to the direct cost of the agency’s employees. Operation refers to the cost of maintaining the daily operation of the public organisation, such as paying electricity bills, paying for subscriptions to newspapers, purchasing office materials, etc. Program is the largest spending category, incorporating mostly time-limited projects such as the cost of building schools and hospitals and expenses to enhance agencies’ capacities, such as employees’ training, installing new technical systems, etc. At a local level, the total program spending by line agencies accounts usually for 70–80 per cent of their aggregate spending. But the ratio of program spending to the total line agency’s budget varies across agencies. For example, the ratio for the policy research office under the Mayor’s office could be less than 10 per cent, but the State-Owned Asset Supervision and Management Committee’s ratio could be over 98 per cent. The ratio depends on the agency’s functions, which determines both the number of agency employees and the services it provides to citizens.

7 Because funding appropriation is the responsibility of the finance department, it is not a suitable indicator to evaluate line agencies’ programs. It was later removed from the indicators.

Table 10.1: Indicators used by central agencies in China.

Indicators	Weight	Criteria (with examples)	Category
1. Output (& intermediate inputs), completion	15 points	Compare with the plan: for every 3% incompleteness, 1 point will be deducted.	Outputs
2. Pace of progress	10 points	Compare with the plan: for 4% delay, 1 point will be deducted.	Program management
3. Quality control (intermediate inputs)	15 points	Whether the purchases or the maintenance is accepted after the inspection, or the construction project passes the acceptance examination.	Program management
4. Procurement	5 points	Whether the purchases apply the required bidding methods.	Program management
5. Funding completion	15 points	Compare with the budget, whether the fund is fully provided. For every 3% shortage, 1 point will be deducted.	Inputs
6. Timeliness of funding	10 points	Whether the funding arrives in the agency account on time.	Inputs
7. Use of funding	20 points	Whether the funding is misused, in terms of accuracy of both the item and the amount. For every 2% overspent, 1 point will be deducted.	Inputs
8. Financial rule compliance	5 points	Whether financial management rules are fully complied with.	Program management
9. Program evaluation	5 points	Whether the performance evaluation report is complete and accurate, and submitted on time.	Program management

Source: Administrative Spending Management Office, MOF (2003).

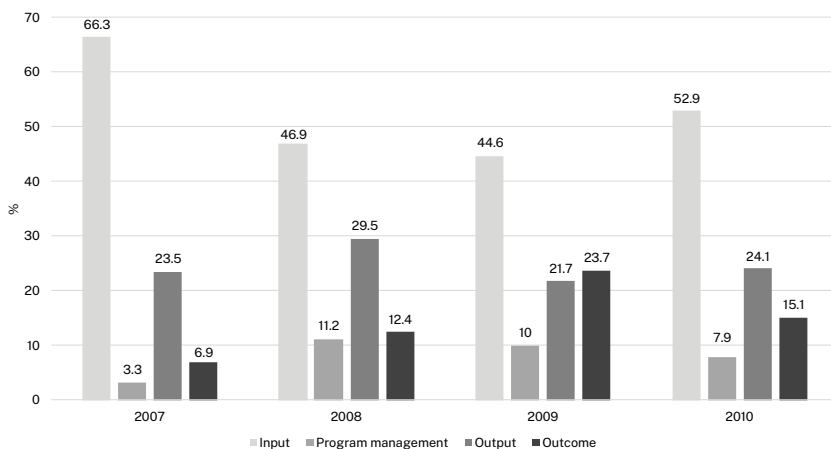


Figure 10.1: Use of performance indicators—by category (city of Guangzhou, 2007–9).

Source: Lian (2010:60).

Program management indicators were substantially used (accounting for up to 35 per cent of the performance score, including indicators 2, 3, 4, 8 and 9 in Table 10.1). Budget execution at the line agency level in China was not well disciplined, which was why these evaluation indicators were selected.

Figure 10.1 shows the use of performance indicators in Guangzhou city, one of the first to trial BPM reforms in China.⁸ According to Lian (2010), on average, the number of indicators used per program in the city rose from 2.19 in 2007 to 7.36 in 2009. Input indicators were dominant. In short, input control of funding management was the major goal of PEFS in Guangzhou, which further confirmed that financial discipline rather than pursuing a better result was the focus of the PEFS in China.

The second stage of BPM: Whole-process budget performance management (2011–17)

The second stage of the reform began with MOF's official announcement in 2011, requiring the implementation of whole process budget performance management (WP-BPM). 'Whole process' was specified as *establishing performance goals in the budget preparation, monitoring the execution, evaluating the ex post performance, providing feedback, and using the evaluation results to improve budget allocation* (MOF 2011a). This definition demonstrated that the focus was still on the performance of the budget system itself, not the final outcomes of the expenditures. While evaluating ex-post performance was part of the first stage reform, the other four elements were new requirements for BPM.

8 When the reform began in China, MOF did not provide clear guidance for local governments, which left space for the local governments to explore and learn. In the beginning, several local governments, including Guangdong province, Jiangsu province, Wuxi city, Minhang district and Nanhai district, etc., started their trials in different ways and developed different models (Niu 2012). The model Guangzhou adopted was similar to the central government's model since it was promoted by the finance department and focused on the performance evaluation of programs. This approach was promoted by the MOF nationwide afterwards. It makes Guangzhou not only one of the pioneers but also a representative of the eventual national approach.

Motivations of WP-BPM

The MOF announcement followed the 5th Plenary Session of the 17th Party Central Committee, which requested improvement of the government evaluation system in October 2010, and the State Council's establishment in March 2011 of an inter-ministerial joint committee on government performance management.

After eight years of continuous effort, the government was aware of the importance of performance in the public budgeting system and their officials had become more familiar with the basic skills of performance evaluation. But they were also conscious of the deficiencies of PEFS. The main concern was the credibility of the results. The ex-post model of performance evaluation has inherent problems. Because the evidence was not collected and analysed until after the programs were finished, there was no way to use evaluation to improve budgeting or execution. Furthermore, because no performance goals were identified in the budget request, and the performance indicators were only created during the ex-post evaluation, line agencies often defined their performance goals by matching them to what they had actually achieved. Therefore, unless a line agency violated the program or financial management rules, or had a huge unspent budget, its performance goals would always appear to be fully accomplished.

The Budget Law amendment in 2014 provided the legal foundation for performance budgeting reform in China. Even though the amendment did not specify using BPM, it identified performance as one of the five principles to be applied at all levels of the public budgeting system and required performance to be installed in each budgetary procedure.

New initiatives under WP-BPM

In order to implement WP-BPM, MOF issued the *Guidelines to Advance Budget Performance Management* in 2011. WP-BPM involved several new innovations.

- All local governments and central agencies were required to install performance evaluation into their budgetary process.
- Although not all programs were to be evaluated, performance indicators for selected programs were required to be presented to the Finance Department during budget preparation.

- During the budget execution, line agencies were required to report the progress of disbursements monthly. Delayed payment was not acceptable.
- Line agencies at all levels of government were required to evaluate their program spending (so-called self-evaluation) and report the results to the Finance Department. Meanwhile, the Finance Department would also select important programs to evaluate. In some jurisdictions, in addition to sharing the evaluation results (which were also made public) with the chief executive, the Finance Department made an annual report to the local People's Congress describing its BPM assessments of the selected programs.

These new initiatives made WP-BPM a more comprehensive reform, making it similar in many respects to a performance-based or result-oriented reform. However, there were still fundamental differences that distinguish China's approach.

First, performance budgeting generally starts with a strategic planning process of some sort to identify public policy problems, set objectives, allocate resources to relevant programs and projects, and set performance targets (Diamond 2003). There was no such process in China. Preparation of program budgets follows a bottom-up approach, and the program's performance goals are usually selected by local-level staff who prepare program budgets on an incremental basis, drawing on the previous year's projects, and who do not necessarily embrace strategic thinking.

Second, although all line agencies are required to submit their performance goals in their budget requests, there is generally no direct link between performance goals and resource allocations for most programs. Performance evaluation remains at individual program or project level—but a department's overall spending is approved in aggregate by the Finance Department. The failure of an individual project will not affect the total departmental budget, providing no incentive for line agencies to apply BPM systematically.

Third, performance budgeting is usually associated with decentralised management where accountability is based on results and agencies are allowed more discretion about how to achieve them (Cothran 1993; Bellone 1988; Cuganesan 2017; Shah and Shen 2007). However, there are preconditions for applying this model (Schick 1998). As the first step to building a modern budgeting system, the absence of financial discipline was the main obstacle. Therefore, establishing a rules-based budget management system was essential. A discretionary style of management was

not an option, given the risk of misuse or abuse of resources. The indicators selected by MOF and finance departments at local government levels clearly show the control-oriented intention: most of the indicators were aimed at preventing line agencies spending money recklessly, rather than aiming to meet budgetary objectives and identifying ‘what to achieve’.

Table 10.2 shows an updated version of the performance indicators, suggested by MOF to be applied at both the central and local levels. In this version, the indicators were divided into four categories: inputs, management, outputs and outcomes. The outcome indicators were divided into four aspects: economic, social, environmental and citizen satisfaction. Economic outcomes refer to economic growth; social impacts concern social equity, particularly for vulnerable groups; and environmental indicators describe environmentally friendly results.

While this approach demonstrates progress since the first stage of BPM, with evidence of a greater concern for the macro-level impacts of each program, the application of the new performance evaluation proved to be challenging. Most programs comprised micro-level projects without identified macro-level impacts. Line agencies were still required to submit a standard evaluation form, even though many performance indicators were irrelevant to the smaller programs. For example, a street maintenance project might be expected to include its projected contribution to GDP growth. Including a citizen satisfaction measurement might seem a great option to improve accountability but it could be quite costly to measure for this small project. The measurements put on the evaluation form might be either of dubious provenance or entirely fake. The arbitrary use of outcome indicators reduced the credibility of performance information, thus discouraging the linkage of performance evaluation to budget decision-making.

As Table 10.2 shows, administrative control was still the main focus of the second stage of BPM in China. Apart from the four outcome aspects mentioned above, only the output completion rate⁹ and cost saving could be regarded as genuine measures of performance. Most of the other measures were used for disciplining line agencies to ensure compliance with the financial management rules. Input indicators included both program planning and fund disbursement. As in the first stage, management indicators measured how well the rules were followed for both program

9 Since the second stage of BPM requires the projected performance goals to be set during budget preparation, measuring completion rates of outputs (how many of the outputs are achieved) is possible.

and financial management, but the output measures now included quality rules and timeliness. It is clear that timely disbursement, quality control and compliance with financial and program management rules were the main targets of the system to ensure proper budgeting management by line agencies.

Table 10.2: Indicators of program evaluation.

First	Second	Third
Inputs	Program planning	Compliance of program examination and approval procedure
		Clarity of performance goals
	Disbursement	Rate of disbursement to the budget
		Rate of timely disbursement
Management	Program management	Compliance with the rules of program management
		Effectiveness of rules execution
		Quality control
	Financial management	Compliance with the rules of financial management
		Compliance of fund use
		Effectiveness of rules execution
Outputs	Program outputs	Completion rate
		Timeliness completion rate
		Quality rules compliance rate
		Cost-saving rate
Outcomes	Program outcomes	Economic outcomes
		Social outcomes
		Environmental outcomes
		Sustainable impacts
		Customers/citizens satisfaction rate

Source: MOF (2011b).

Managerial approach to promote BPM

To encourage BPM implementation, MOF issued the *Methods to Assess Budget Performance Management Implementation* in July 2011. In this administrative order, MOF established a set of managerial indicators to force central agencies and local governments to use BPM. These managerial indicators were targeted at the activities necessary to promote BPM

(see Table 10.3).¹⁰ Although the managerial approach is not the main focus of this study, it provides a good example of the Chinese approach to using performance evaluation to promote behavioural changes in public organisations and among cadres (see also Chapters 11 and 13 in this volume).

There were 19 indicators in total in this assessment of the management of BPM, each indicator having detailed criteria about how an agency or local government should promote BPM.¹¹ Agencies and local governments were required to evaluate themselves first, then accept the evaluation of the Finance Department/MOF.

Among these indicators, half the weight was given to performance evaluation (Indicators III and IV in Table 10.3), with the other half given to activities supporting BPM adoption (Indicators I, II and V in Table 10.3). Those supporting activities represent a typical strategy used by the Chinese Government to promote reform, emphasising the Chinese governing system's institutional approach.

Table 10.3: Managerial indicators for provincial BPM adoption.

Indicators		Weight	
I. Organisational preparation	i. Leadership support	12	6
	ii. Clear responsibilities assignment		4
	iii. Assessment of BPM adoption		2
II. Organisational support	i. Establish necessary institutions	23	9
	ii. Design of performance indicators		9
	iii. Information system		3
	iv. Monitoring the third party		2
III. Implementation	i. Coverage of BPM	20	6
	ii. Funds involved		9
	iii. Scale of performance		5

¹⁰ Using performance evaluation to encourage an innovation in the Chinese public sector was not new. Regarding BPM, before MOF's evaluation, local governments had used this approach to force agencies to adopt PEFS. Some indicators, such as completion and accuracy of the information and timeliness of submission, were used to evaluate each agency's level of cooperation.

¹¹ In *Methods for Assessing Budget Performance Management Implementation*, MOF created a separate performance indicators index for central agencies and provinces, but the framework is the same.

Indicators		Weight	
IV. Performance management	i. Goal setting	30	10
	ii. Performance monitoring		6
	iii. Performance evaluating		7
	iv. Use of the result		7
V. Publicity and communication	i. Publicity of BPM	15	3
	ii. Conduct relevant research and get published		2
	iii. Training		3
	iv. Information exchanging		5
	v. Others		2
Total		100	100

Source: MOF (2011c).

The third stage of BPM: Full implementation of BPM (since 2017)

In 2017, the 19th Central Party Committee called for speeding up the establishment of modern budgeting. Full implementation of performance management became one of the three pillars of China's modern budgeting system. After the party's Central Committee and the State Council released *Suggestions on Full Implementation of Budget Performance Management* (FI-BPM) in September 2018, MOF promulgated a guideline introducing the concept of 'full domains, full process, full coverage' in November 2018. Although the concept of FI-BPM remained ill-defined and the all-embracing concept unclear, many new exciting initiatives were adopted.

Innovations of FI-BPM

First, the scope of BPM was expanded. 'Full domains' refers to an inclusive mechanism embracing all institutions in order to make line agencies accountable, particularly for both budget preparation and execution (Xiao 2018). Later, due to substantial concerns for fiscal sustainability, the target of BPM was extended to include the aggregate level of budgets for both central and local governments. These include revenue structure, efficiency of revenue collection, tax exemptions, debt financing, etc., not just expenditures. These macro-level evaluations of fiscal policies are used by higher-level governments to monitor local fiscal sustainability and are not viewed as part of the regular BPM reform agenda.

Second, ‘full coverage’ means the general budget is evaluated including not only government funds but also state-owned capital budgets, and social insurance fund budgets.¹² In addition, as well as evaluating the performance of individual programs, each line agency’s overall organisational performance is now also evaluated.

Overall organisational performance evaluates not only program spending, but also personnel and operational spending. Early in 2015, China started organisational performance evaluation pilots both at the local and central levels. This was not expanded until FI-BPM which required full coverage of government budgets. In order to evaluate an organisation’s whole performance, its individual programs must be combined based on the organisation’s main tasks and functions. This was meant to help reduce fragmentation in program planning.

The performance indicators were also modified a little. In 2020, MOF issued its new *Methods on Performance Evaluation and Management of Fiscal Expenditure*, which revised the different indicators. It replaced ‘inputs’ with ‘decisions’ but kept ‘management, outputs, and outcomes’. The decision indicators now included the necessity of the program, soundness of performance goals, compliance with the program application and examination rules, and reasonability of funding. The timeline for budget appropriation was moved from ‘input’ to ‘management’. The outcome indicators were reduced to two categories, ‘impacts’ and ‘citizen satisfaction’. It was also specified that the agency need only select the outcome aspects among economic, social, environmental and sustainable impacts that are relevant to that program or organisation.

The input/decision and management indicators are applied universally to any program and at any organisational level. In order to simplify evaluation, the Finance Department provides unified input and management indicators, and line agencies are required to design their own output and outcomes indicators. Moreover, in order to help line agencies and program managers prepare their outputs and outcomes, many local finance departments suggest a list of performance indicators.¹³ For example, Guangzhou requires

12 In China, the aggregate government budget has four components: general budget, government funds, state-owned capital and social insurance funds. BPM had been focusing on the general budget as it was the dominant component before FI-BPM.

13 This effort started in the first stage of BPM in China and became more comprehensive under FI-BPM.

at least eight indicators for each aggregated (or Level I¹⁴) program, and at least 50 per cent must be quantitative indicators. Output indicators are specified according to three dimensions: quantity, quality and timeliness. By 2020, Guangzhou had over 350 indicators for input and management indicators, and over 25,000 output and outcome indicators recommended for line agencies to choose from.

Table 10.4 shows that agencies in Guangzhou have more output indicators than outcome indicators. About 50 per cent of those indicators in Guangzhou are quantitative in both operation and services programs. Consolidated (Level I) program evaluations apply more indicators than the disaggregated (Level II) evaluations (for each individual program). On average, eight or nine indicators are used for Level I programs and six or seven indicators are used for Level II programs.

Table 10.4: Program performance indicators in Guangzhou, 2020.

Category	Categories of Indicators	Number of Indicators
Operation I	Outputs	4.15
	Outcomes	3.58
	<i>Quantitative proportion</i>	41%–60%
Operation II	Outputs	2.88
	Outcomes	2.54
	<i>Quantitative proportion</i>	41%–60%
Services I	Outputs	4.52
	Outcomes	4.18
	<i>Quantitative proportion</i>	41%–60%
Services II	Outputs	3.34
	Outcomes	2.96
	<i>Quantitative proportion</i>	41%–60%

Source: Survey on 67 agencies in Guangzhou by the authors in 2020.

14 In China, program budgets are prepared through a bottom-up process and each ‘program’ usually involves a particular activity by low-level management. As a result, each agency has hundreds (or even over a thousand) programs, which increases the workload of performance evaluation tremendously. In order to reduce this fragmentation and improve the efficiency of performance evaluation, the Guangzhou Finance Department first splits all programs into two categories, ‘operation’ and ‘services’. Operation programs refer to the activities to maintain or improve agencies’ organisational capacity, such as information systems, electricity, workplace security, for example. Services programs deal with public services provided to citizens, such as free textbooks for students. Furthermore, in order to link an evaluation to the achievement of an agency as a whole (such as implementing a macro level of public policy) instead of focusing on micro-level activities, the Finance Department created two levels for both operation and services programs: Level I programs address the macro-level achievement related to certain policy goals, and are consolidated from Level II programs, which focus on micro-level activities, which had previously been evaluated in the earlier stages of the BPM reform.

Third, FI-BPM called for a direct link between performance results and resource allocation. ‘Accountable for spending, punish the ineffectiveness’ (*hua qian bi wen xiao, wu xiao bi wen ze*) has become a slogan for BPM reform since 2018. Put another way, the performance result is mainly used to discourage the bad rather than encourage the good. For example, in 2019, the Finance Department cut RMB5.43 billion from low-performing programs after evaluating 98 important programs. For any weak or poor program,¹⁵ the Finance Department will consider cutting its budget. If an agency runs a program poorly, the Finance Department will reduce its personnel and operation quota¹⁶ by 1–5 per cent. Moreover, since the introduction of FI-BPM, almost all governments have increased the weight of BPM implementation in the annual public sector evaluation.¹⁷ For example, if an agency’s spending falls behind schedule, the agency head will be asked to explain and promise the mayor or governor to take corrective action.

Fourth, the transparency of performance reporting was significantly improved, especially about each line agency’s overall performance. For each level of government, its finance department provides a structural framework for agencies’ overall performance reports. After budget execution, the departmental account report is audited and passed to the People’s Congress in the fall.¹⁸ Under the FI-BPM initiative, most localities and central agencies have added the organisational performance results to their final account reports.

Fifth, the involvement of third-party consultants is substantial in FI-BPM. To produce the information required, there was a sharp increase in workload for procedural design, data collection and analysis, field investigation, report writing, etc. This was beyond the capacity of most line agencies and finance departments. The third parties are usually a research team from academia, an accounting firm or a consulting firm. They collaborate with the Finance Department or line agencies to evaluate specific programs or help with self-evaluation.

15 Based on their performance evaluation scores, Guangzhou ranks its programs as excellent, good, moderate, weak or poor.

16 For each agency, the finance department assigns a quota for its personnel and operation spending. The quota usually remains the same (Ma and Niu 2006). Cutting the quota is a very strong punishment. In China, an agency has little discretion to decide the size of its organisation or the amount paid to employees.

17 China has a long tradition of evaluating public sector cadres and agencies. Budgeting management was one of the indicators used, but it was given minor weight until the FI-BPM initiative began in 2017.

18 Since 2015, right after the Budget Law was amended, all line agencies must post their final account reports online within 20 days after the People’s Congress approved.

Finally, the role of the People's Congress in the budgetary process has been enhanced. Along with the greater transparency of performance reporting, more local congresses now request a separate annual reporting process on BPM. In addition, the Party Central Committee issued *Guidance on Expanding Legislative Budget Examination and Supervision to Important Spending and Policies* in 2018. Responding to this call, many local congresses started evaluating the performance of selected programs or policies by contracting out to a third party. And, in order to improve their capacity as the legislature for budget supervision, both the central and local congresses established an online system to execute real-time supervision (Niu and Lin 2020).

Summary of the three stages of BPM in China

Table 10.5 demonstrates the similarities and differences of the three stages of BPM in China over the last two decades.

Table 10.5: Comparisons of three stages of BPM in China.

Stages	First (2003–2011)	Second (2011–2017)	Third (2017–present)
Title	Performance evaluation on fiscal spending (PEFS)	Whole-process budget performance management (WP-BPM)	Full implementation of budget performance management (FI-BPM)
Party initiative	Yes	Yes	Yes
Goal	Reduce unspent budget	Enhance control over the line agencies	Improve the accountability of the budgeting system
Scope of evaluation	Program spending	Program spending and overall agency spending	Program spending, overall agency spending, aggregate budget and selected policies
Coverage of budgetary procedures	After execution	The whole budget cycle	The whole budget cycle
Performance indicators	Input, management, outputs	Input, management, outputs and outcomes	Decisions, management, outputs and outcomes
Quantification of indicators	Less quantitative, more qualitative	Less quantitative, more qualitative	Half quantitative and half qualitative

Stages	First (2003–2011)	Second (2011–2017)	Third (2017–present)
Citizen satisfaction measures	Not required	Required in most years	Required
Required performance reporting	No	No	Yes, part of line agency annual final account reports
Role of Congress	Bystander	Examiner of performance report	Examiner, initiator of performance evaluation, real-time supervision

Source: Authors' assessment.

Use of performance information in line agencies: Guangzhou's case

The evolution of BPM described above demonstrates China's persistence in improving its budgeting management over several decades. The party has been an important promoter of BPM at every stage. All these initiatives are top-down, but the purpose of BPM is mainly to change line agency behaviour. We surveyed 67 of Guangzhou's agencies (72.8 per cent of total agencies in Guangzhou) in 2020 to examine how line agencies used their performance information (PI), referring to the performance evaluation results.

We found the best use of PI was to improve budget execution (achieving the highest score of 4.14¹⁹—see Table 10.6). Importantly, agencies tend to use PI also to implement policy (which achieved a score of 4.13). The use of PI for rewards or punishment gained the lowest score (2.51). Budget allocation's score was also relatively low (scoring 3.60), which means that few line agencies established a link between performance results and resource allocation.

19 In the survey, we used a 5-point Likert scale to measure whether each agency in Guangzhou uses each element of BPM. 'Strongly agree' scores 5, 'agree' scores 4, 'neither agrees nor disagrees' scores 3, 'disagree' scores 2, and 'strongly disagree' scores 1. Table 10.6 shows the average scores of 67 agencies (with an exception on aggregate control where 53 agencies answered the question). These assessments were our own, based on our examination of the practices in each of the 67 agencies surveyed.

Table 10.6: Use of PI in Guangzhou (2020).

Budget cycle	Use of performance information	N	Average	Min	Max	Std.
Preparation	Link to policy	67	4.13	2.33	5	0.69
	Aggregate control	53	4.06	3	5	0.60
	Priority ranking	67	4.00	2	5	0.77
Execution	Program and financial management	67	4.14	3	5	0.56
Evaluation and supervision	Evaluation	67	4.06	1	5	0.80
	Feedback	67	3.55	1.4	5	0.93
	Reporting	60	4.11	1	5	1.32
	Rewarding/punishment	67	2.51	1	4.5	0.91
	Budget allocation	67	3.60	1	5	0.87
Overall	Use of evaluation result	67	3.76	2.75	4.61	0.47

Source: 2020 Guangzhou survey, by the authors.

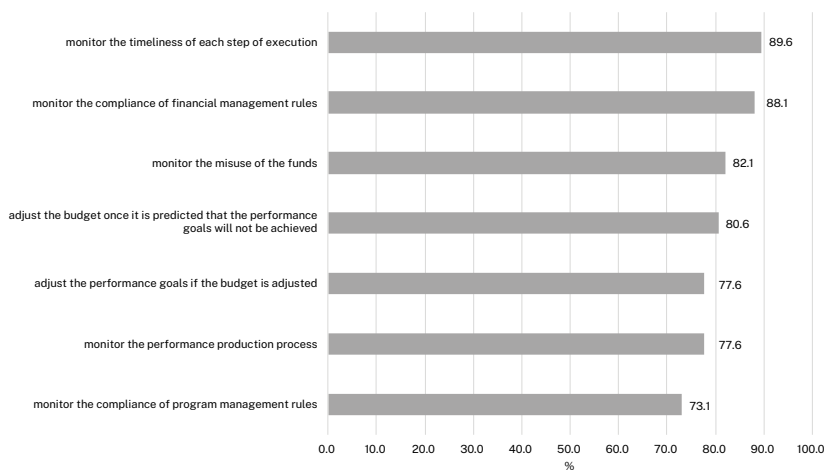


Figure 10.2: Use of performance information during budget execution.

Source: 2020 Guangzhou survey, by the authors.

In order to understand how agencies use BPM to enhance their internal control, we also examined the activities involved during budget execution. Perhaps unsurprisingly, as Figure 10.2 shows, monitoring the timeliness of each step of execution is the most popular use of performance evaluation: 89.6 per cent of respondents stated they used PI to monitor how timely

the disbursement was. More generally, PI was used to reinforce financial controls: to stop the misuse of funds and to make sure the rules of program and financial management were followed.

Another question we explored is why line agencies use PI at all? Of course, they must comply with the central budgeting office's demands. But, besides that, what benefit might an agency itself gain from using PI? Figure 10.2 shows the responses from the line agencies survey: 89.6 per cent of the respondents said their program planning followed the city's policy priority, which was a significant success because the disconnection between budgeting and policy had been a serious problem in the Chinese budgeting system (Ma and Hou 2005). Figure 10.3 also shows PI helped enormously with program priority setting within the agencies.

Interestingly, line agencies also saw that the use of PI helped them to gain external support,²⁰ most importantly from Guangzhou's People's Congress, considered slightly more important for the agencies than the mayor's support (see Figure 10.3). This finding may reflect the fact that Guangzhou has the most ambitious congress in terms of budget supervision²¹ and the most transparency of any Chinese city in terms of public budgeting management.²² Guangzhou's People's Congress was the first local congress to require reporting on performance evaluation, separate from the regular budget and audit reports. And since 2019, Guangzhou's Congress has conducted performance evaluations every year on two or three important programs that representatives are most concerned about. Separate from the evaluation applied by the Finance Department or line agencies, Congress's evaluation gives the budget committee more power to tailor performance indicators and the evaluation procedure, and therefore to have more influence over budget monitoring.

One may argue that Guangzhou is not a representative case. This would be relevant if we wanted to examine how well BPM is being implemented in China in general: Guangzhou has made much more progress than other localities. As the pioneer of many governance reforms, Guangzhou has

20 Beyond the Finance Department, which is viewed as an internal player because it is responsible for the regulations on BPM reform.

21 Guangzhou was one of the two cities that established a budgeting committee. The other is Shenzhen. All other city congresses have an economy and public finance committee responsible for budget supervision. Because such committees have multiple responsibilities, their budget supervision is relatively weaker.

22 According to the annual report on Chinese city fiscal transparency by a Tsinghua University research team, Guangzhou was China's most transparent city in 2021 (Fiscal Transparency Research Group 2021).

advantages as a case study of China's adoption of BPM, revealing BPM's capacity to promote a more transparent and efficient government, a more developed civil society and a more ambitious and cooperative legislature. Moreover, there are still some noticeable similarities between Guangzhou and other cases in China. First, the three stages of reform have been widely adopted because the BPM reform in China was a requirement of the central government. Second, after almost two decades of experiments, the performance indicators and evaluation procedures used in Guangzhou have been broadly diffused. More generally, local governments in China always learn from each other and influence the Finance Department's guidelines. Therefore, many approaches used in Guangzhou are identical to those used in the rest of China.

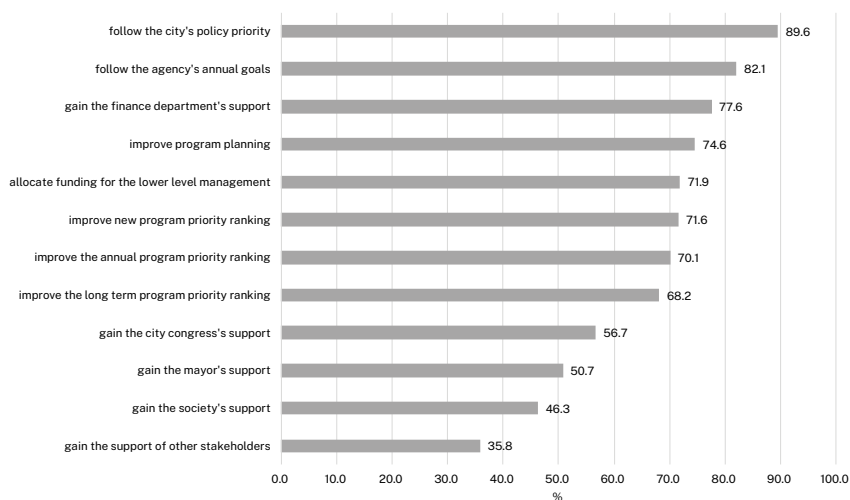


Figure 10.3: Use of PI during budget preparation.

Source: 2020 Guangzhou survey, by the authors.

Evidence-based budgeting management

Our findings show that BPM in China has established an evidence-based budgeting management paradigm aimed at controlling line agencies and their use of resources: it is not yet a genuine performance budgeting case focusing on achieving results, along Western models.

First, the definition of performance in China's public budgeting system is quite different. Performance, as applied in Western performance budgeting, refers to the achievements of government programs whether in terms of 'results' or 'outcomes' or 'economy, efficiency and effectiveness'. But in Chinese BPM, performance refers more narrowly to the budgetary cycle and financial management processes. Evaluating performance of line agencies' programs or projects requires measuring each activity that a line agency takes through its budgeting management.

Second, BPM in China is not only about controlling budgetary behaviour but also about influencing organisational processes in order to promote a favourable institutional environment for reform. In order to promote BPM, the Finance Department measures agencies' management, such as: the extent to which agency heads are involved in the reform, whether staff are provided training, and how many BPM reports are published. These go beyond regular performance evaluation on budgeting.

Third, the evidence-based budgeting management in China is strongly control-oriented and does not involve devolving authority, as is the case in most Western performance budgeting arrangements (though these arrangements do operate beside strict budgetary, financial management and accounting rules). Finance departments play a dominant role in designing performance indicators and evaluation procedures, selecting third-party evaluators, and reporting performance. At the same time, performance evaluation allows finance departments access to detailed information on agencies' program implementation. The growth of transparency has made fiscal monitoring much easier. The reforms have also helped the Finance Department transform itself into a strong central budgeting office.

Rationale of China's BPM

The transformation of state governance in China provides a contextual explanation for the enduring efforts of BPM reform in China. Although China had not experienced a new public management movement, the international interest in performance management reform still has had a deep impact on China's civil service reforms. The three stages of BPM reform are responses to the calls for strengthening performance management in general, which partially explains why the Central Party made called for the inception of each stage of BPM.

Because of the transformation of state governance within China's 'socialist market economy', building a modern budgeting system has become an urgent task directed by the Central Party committee. China's budgetary reform started in the late 1990s. Due to the lack of financial discipline, the Finance Department had very weak control over line agencies. There wasn't a complete departmental budget before 1998. Therefore, the first step towards modern budgeting was the departmental budget reform (DBR), disciplining the line agencies by making them prepare budgets.

This early reform was not complete, but basic spending (personnel and operation spending) was at least transparent. However, the many problems related to program spending, which comprises about 80 per cent of total departmental budgeting, were left unsolved. Unlike other countries that have long histories of program management, China started with a blank sheet. The first step was to establish rules for the program and financial management. However, due to the lack of monitoring, the Finance Department did not know whether or how these rules were being implemented by line agencies. For example, budgeted items often went unspent while line agencies kept raising their budget requests and budgets had to be constantly adjusted. To solve these problems, further budgetary reform, particularly to control program implementation, was needed.

But why was performance the term selected for the reform? To promote an innovation, a new term was needed to distinguish it from the DBR of the late 1990s. Also, 'performance' provides a useful slogan to legitimise the reform. It matches the broader initiative for government performance management. Performance evaluation requires rich and transparent information, which is extremely important for the central budgeting office. Without evidence, it is almost impossible for the central budget office to endorse the line agencies' budgeting management. With performance evaluation, the Finance Department has created a self-reporting mechanism through which the line agencies have to open up their operational processes.

Conclusion and discussion

This study examines the evolution of performance budgeting reform in China. It focuses on what performance indicators are reviewed and how they are used. Rather than a permutation of the Western version of performance budgeting, China uses BPM to maintain evidence-based and systematic budgetary control of its line agencies. Program planning and management

have been the focus of the reform. Over the past two years, output and outcome measurement has increased in importance. More significantly, the link between performance results and budget allocation is gaining more attention.

Consistent with Allen Schick's advice (Schick 1998), China has chosen to focus first on establishing the 'basics' of a budgeting and financial management system before considering an NPM-style performance budgeting regime, though in doing so it has chosen to employ some of those regimes' performance management techniques. BPM reform in China shows there are certain stages in building a modern budgeting system that cannot be skipped. Financial discipline is necessary for establishing an outcome-based performance budgeting system. Evidence-based budgeting management is necessary before installing performance budgeting or embracing discretionary management by line agencies.

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11

China's approach to performance management and future directions

Jie Gao

Abstract

This chapter examines China's approach to performance management during the past four decades, with a focus on the important changes before and after Xi Jinping came to power. It argues that China's approach has been to reconcile two competing theories in performance management—the principal–agent model and the principal–steward model. The two models differ in their core assumptions about how political principals should motivate and monitor bureaucratic behaviour, and therefore provide a useful perspective to understanding China's evolving approach. This chapter shows that the national leadership before Xi Jinping strove to develop a principal–agent system in performance management and saw that model as useful for resolving the problems rooted in China's patronage-based cadre management system. However, such an approach also brings classic principal–agent problems to cadre management and local governance. Xi's reform approach, by contrast, emphasises the value of the stewardship system that has contributed to the success of the Chinese Communist Party's rule, such as maintaining intrinsic incentives, loyalty and trust of the cadre corps. This chapter concludes by discussing critical issues in advancing China's performance management reforms in the decades to come.

Keywords: performance management; principal–agent; steward; target responsibility system; Chinese bureaucracy.

Introduction

Performance management has been vigorously implemented in Chinese local governments during the past four decades. In China's context, it is an umbrella term that covers a variety of systems and programs launched at local levels since the late 1970s, such as the cadre (or target) responsibility system (Edin 2003), civil service reforms (Burns and Wang 2010), citizen participation in government performance evaluation (Yang and Wu 2013), and most recently, the 'one-go at most' initiative in Zhejiang province (Gao and Tan 2020).

Among these, the target responsibility system (hereafter the 'TRS') is one of the most influential schemes. The TRS is a type of target-based performance measurement system used by governments around the globe. Since the mid-1990s, the TRS has been institutionalised in Chinese local governments at all four levels (provinces, municipalities, counties and townships). It is officially intertwined with the Chinese Communist Party's (CCP) cadre management system. Given that the subnational governments in China employ over 80 per cent of Chinese officials, the impact of the TRS in shaping the mindset and behaviour of the majority of the Chinese bureaucracy is significant. The TRS is also ubiquitously applied in almost all major policy areas, such as environmental protection, improving social welfare, promoting economic growth, and so on.

The evolution of the TRS during the past four decades offers a key perspective to examine China's overarching approach to performance management reforms. This approach, as this chapter shows, has been to find a proper balance between employing a principal–agent model and a principal–steward model in motivating local officials to achieve the party-state's crucial governance goals. Before Xi's administration came to power, performance management was based largely on principal–agent relationships. One manifestation of this approach has been the adoption of performance contracts between governments at various levels of the hierarchy and the use of extrinsic incentives such as financial rewards or career prospects to motivate local leaders to accomplish their contracts. Fulfillment of the targets in the contracts is then linked to cadre selection

and promotion, which have long emphasised cadres' political consciousness, family background, informal networks and factional ties—more of a principal–steward approach.

However, seeing local officials as both agent and as steward creates tensions and obstacles in developing a coherent management system. For example, as stewards, local officials should be given significant discretion in performing their jobs, but as agents, they need to be strictly controlled and their performance monitored so as to reduce information asymmetries. Such tensions have caused a deep dilemma for Chinese leaders as they attempt to advance performance management reforms. The dilemma can be observed in the recent reforms under Xi's administration: on the one hand, efforts were made to tackle the agent problems, for example, strengthening monitoring on local officials' information distortion behaviour. On the other hand, Xi's reform reasserts the importance of stewardship in the system. Political credentials and ideological correctness are reinforced in cadre evaluation and management.

Agents versus stewards: Competing theories

In recent years, there has been a growing discussion on how performance management reforms should be advanced (Bjurstrom 2020; Pierre and Peters 2017; Schillemans 2013). Two prevailing theories are the principal–agent model and the principal–steward model. The principal–agent model assumes that agents are rational actors who are driven by self-interest and are sensitive to extrinsic motivations such as financial rewards. They will act opportunistically when their own goals diverge with those of the principals. As the agents normally have more information than the principal who delegates tasks to them, they can take advantage of information asymmetry to shirk or drift from their obligations, or worse, undermine the policy goals of their political principals. Therefore, agents are not trustworthy, and their performance should be monitored and regulated strictly.

By comparison, the principal–steward theory posits that local service providers can act as loyal and trustworthy stewards. They are motivated by collective or social goals, not primarily by self-interest. They perform their tasks based on intrinsic incentives such as self-realisation and public service motivation. Maintaining personal relationships between the principal and the stewards is important because it nurtures loyalty, respect and mutual

trust between the two parties. This in turn decreases the need for stringent control and oversight (Davis et al. 1997; Van Slyke 2007; Schillemans 2013:545). In a word, the agent model and the steward model advocate different incentive schemes, different management systems and different relationships in the bureaucracy.

In practice, the two models are by no means dichotomous or mutually exclusive. Bjurström (2020) points out that both are ideal types of relationships that could be put at opposite ends of a continuum bounded by relationships with a low degree of goal congruence and mutual trust (the agent model) and relationships with a high degree of goal congruence and mutual trust (the steward model). Most performance management systems draw on a mix of the two models, at least in some instances or at some points in time. For example, Van Thiel and Smullen (2021) find that in Australia, the federal government mixes elements and instruments from the two models in managing agencies. In the Commonwealth, among non-corporate entities such as government departments, instruments that favour a principal–agent model of monitoring and compliance are more commonly used than in corporate entities such as the Australian Broadcasting Commission, which operate at arm’s length from the government. But both types of agencies are also given a moderate level of policy autonomy and use contracts at a moderate frequency, which indicates the existence of a stewardship model.

China’s TRS: Turning stewards to agents

Whereas performance management in Australia arose from budgetary and financial management reforms, performance management in China started with the objective of improving the CCP’s cadre evaluation system (Podger 2018). A key feature of the CCP’s cadre personnel management system is that it maintains informal patron–client networks through personalised power and shared goals and values (Nathan 1973). For example, factional ties—defined as personal ties to dominant leaders—are important for cadres to successfully advance their careers, especially if they are in leadership positions. Dominant factional leaders lead through personal exchange relations with their supporters. The survival of the faction depends on the capacity of the dominant leaders to reward their followers and protect them in times of career uncertainty (Choi 2012:965–66; see also Pye 1981). In return, the clients perform tasks for the dominant leaders. They are expected to share their patron’s goals and interests, to be highly responsive to their patron’s demands and to faithfully implement the patron’s orders.

Such a patron–client relationship shares some essential features with the principal–steward model such as the emphasis on shared goals, mutual support and trust, and a small power distance between the two sides.

The cadre management system reinforces the patron–client relationship by inculcating in cadres a recognition of political unity, loyalty to their superiors and selfless devotion to the socialist cause (Schurmann 1968). At the heart of the CCP's success is its competence in disciplining its cadres and ensuring the cadres share and insist on the same ideology. Ideology indoctrination is used as a means of directing action and controlling cadres. The practice of ideological work includes improving political trustworthiness by following a set of rules that define the proper ends and criteria of cadre performance, enhancing political consciousness by using political communication strategies to integrate central and local authorities and other agents, and clarifying political rules by punishing any deviation (Chen 2018:293, 295).

Moving towards a contractual system

In the reform era, CCP leaders have increasingly emphasised the importance of work achievements in determining political elites' career advancement. The CCP's cadre evaluation system adopted five criteria for assessment, selection and promotion of a cadre: virtue, competence, diligence, work performance and integrity (Central Organization Department 1998).

Work performance, in turn, is assessed in terms of performance in six categories: economic development, social development, sustainable development, improvement of people's lives, social harmony, and party and government work style (Central Organization Department 2009). Local governments develop performance items, targets and indicators based on their own local situations. Table 11.1 provides an example of how a township in Shaanxi province developed its own indicators in these categories.

The TRS establishes a typical principal–agent relationship. First, authorities at a higher governmental or agency level sign performance contracts with subordinate organisations or governments at the next lower level. The contracts specify the performance goals and targets to be fulfilled, specific indicators that measure the accomplishment of each target, the weight of each indicator in the evaluation scheme, and rewards for reaching the targets and penalties for failure to reach them. Performance contracts are normally updated on an annual basis. Progress toward target accomplishment is reported on a quarterly or even monthly basis. The principal also monitors the agent's performance regularly through spot checks, inspections, statistical auditing, etc.

Table 11.1: Performance contract signed between Feng county and one of its townships in Shaanxi province, 2017 (excerpts*).

Category	Targets (points)	Indicators
Economic development (200 points)	GDP (20)	Achievement of a GDP annual growth rate of 12%
	Investment in fixed assets (40)	Investment of RMB700 million in fixed assets
Cultural development (50 points)	Education (30)	Ensuring over 85% of children enter kindergarten before entering primary school
	Culture (10)	Construction of cultural service centres in villages and communities
Social development (110 points)	Social order and stability (45)	Accomplishment of tasks on maintaining comprehensive social order and stability, social safety maintenance, letters and visits and fighting against religious cults
	Transparency of village affairs and elections of the new village committee (5)	Ensuring the smooth election of the new village committee and ensuring the election follows legal procedure
People's lives (170 points)	Distributable income per capita of rural residents (50)	Ensuring rural residents a distributable income per capita of RMB14,026 (30 points), with a growth rate of 10%
	Eliminating poverty (60)	Ensuring that 5 villages are no longer poverty-stricken; lifting 444 people out of poverty; movement of 52 households with 183 people
Ecological environment (120 points)	Water and soil (25)	Preservation of 27,227.7 acres of farming land
	Forest (35)	Accomplishment of 2017 Implementation Plans for Forest Construction and Greening Projects
Brightening plan (30 points)	Pursuit of organisational excellence (10)	Inclusion in the province's top 10 cultural tourist sites
	Featured work (20)	Construction of an innovative public service hall
Common targets# (170 points)	Construction of leadership corps and cadre corps (40)	Education of cadres; development of an innovative talent-management system
	United front work (5)	Establishment of dossiers on overseas Chinese, ethnic minority cadres, overseas students, teaching staff in religious places, business unions, etc.

Notes: * Performance categories are the originals. Targets and indicators are selected excerpts.

There was a total of eight common targets. These are standard targets that apply to all townships of Feng county.

Source: Party Committee and Government of Feng County (2017).

Second, the principal uses two methods to bring the agent into alignment with the principal's goals: permitting the agent limited negotiation ability regarding the goals and giving the agent strong incentives to achieve the goals by making the agent's future depend upon achieving them, through what is known as veto power. If local officials fail to accomplish a target with veto power, their advancement will be vetoed regardless of how successfully they achieve other assigned targets. Many targets related to social stability, such as work safety and the handling of mass petitions and complaints, are targets with veto power.

Third, the TRS provides high-powered incentives to motivate the agent to fulfill the targets. Most of these incentives are extrinsic ones. Financial rewards and career prospects are among the most important extrinsic incentives. Local officials and all members of their organisation receive financial bonuses if the organisation's performance is ranked highly compared to their peer institutions. Leaders of the organisation also increase their chances of promotion. On the other hand, if they fail to fulfill a required task, especially if that failure causes serious social repercussions such as mass protests, local officials will be held accountable, and in some cases, they must take the blame and resign from their positions.

Prospects and problems

By turning stewards into agents, the TRS addresses some longstanding issues in the Chinese political system. First, it reduces the opaqueness and the dominant role of personal power in making crucial cadre selection and promotion decisions. After a few decades' implementation, work performance has become a primary criterion in local officials' promotion. Many studies have found a strong link between performance and promotion of local leaders. For example, Cai (2015) finds that better economic performance, as well as personal connections with political bosses, enhances the promotional prospects of municipal party secretaries. Landry et al. (2018) find that economic performance plays a greater role in promotion at lower administrative levels of government than at higher ones, even after controlling for political connections.

Second, the TRS strengthens local government's compliance with policy goals set at higher governmental levels. It has strengthened the capacity of the communist state to have its most crucial policies implemented at local levels, thus reducing the policy implementation gaps caused by decentralisation reforms (Edin 2003). The TRS also incentivises local officials to match

resources to tasks. It provides the higher levels of government with levers to manipulate the structure of local spending through unfunded or partially funded mandates (Tsui and Wang 2004). There is also abundant evidence that in specific policy areas in which the TRS is implemented, such as economic growth, emission control and work safety, policy goals at both national and local levels are consistently met.

Third, the TRS produces a large amount of information that can be used for decision-making and policy refinement. Because of China's huge size and scale, lack of accurate and reliable information has been a problem for Chinese decision-makers throughout history. Because the TRS requires regular monitoring and reporting of local governments' progress in achieving their performance contracts, an enormous volume of data is produced and recorded in annual reports, statistical yearbooks, bulletins and the like. Many local governments also make performance information available to the general public through government portals.

Nevertheless, the TRS also brings classic principal-agent problems to local governance and cadre management. First, although performance goals are clearer now, goal displacement is still a thorny issue. For example, when work safety deteriorated in the early 2000s, national leaders established a set of quantified targets to control work-related fatalities (e.g. controlling fatalities in coal mine accidents to under a certain number per year) in order to maintain social stability and protect workers' interests. Because these targets were given veto power in their performance evaluations, local leaders were incentivised to fulfill the targets by any means necessary. In some cases, local officials took drastic measures that could harm social stability, such as covering up death tolls in coal mine accidents by secretly removing the corpses (Wright 2012). In such cases, while the central leaders wanted to use the TRS to maintain social stability, local officials' goal was to accomplish the targets, even if they knew it would generate social tension.

Second, although the TRS provides abundant performance information for decision-makers, it also triggers information manipulation and distortion at local levels (Gao 2015; Wallace 2016). The result is an explosion of performance information in various policy areas that, perversely, is unreliable for decision-making. During the process of collecting data at the grassroots level and reporting it level by level up the hierarchy, there is plenty of opportunity for data fabrication or manipulation. At each level, officials are driven by the same need to fulfill their assigned performance targets,

so they may turn a blind eye to their subordinates' data manipulation. In some cases, the superiors will even subtly encourage their subordinates to inflate economic data (Zhou 2010).

Data manipulation not only hinders effective decision-making, it also erodes the confidence and trust of local cadres in the whole system. The promotion tournament created by the TRS compels local officials to compete for a better ranking and to avoid being blamed for poor numbers. Gao (2015) finds that a very troubling result of implementing the TRS is that lower-level cadres have come to view cheating in numbers as a natural part of their work life. That mindset erodes the integrity and service ethos of the party's cadre corps. Even while acknowledging that data manipulation was unethical, as rational agents, local officials consider it a reasonable response to the demands placed on them. This is particularly the case when data manipulation becomes a norm in work or an accepted and shared value among local cadre corps.

Third, a serious issue for CCP leaders is that the pragmatism promoted by the TRS undermines the value of ideological correctness (Chen 2018). Most performance targets are result-oriented. Local officials have some discretion in determining how these targets are met. As Deng Xiaoping famously put it: black cat, white cat, it is a good cat as long as it catches mice. TRS-stimulated pragmatism greatly blunted the force of the ideological message issuing from the central authorities, who repeatedly stressed the importance of maintaining political integrity and loyalty to Marxism and the socialist cause. During this period, performance was given greater weight than ideological correctness in the GDP-centred promotion tournament. Political loyalty to Marxism and the road to socialism with Chinese characteristics, with the political discipline to ensure adherence to the line of the central authority, were deemphasised in official discourses (Chen 2018:297).

Reform developments in Xi Jinping's era

The coexistence of the principal-agent and the principal-steward relationships in China's performance management reforms leads to a number of questions: how should performance and patronage be balanced in cadre management? How can local agents be focused on results without losing professional ethos, political loyalty and integrity in their work? Is reasserting the principal-steward relationship a remedy to the problems of emphasising the principal-agent relationship in China's cadre management

system? These questions are not easy to answer. Drawing on some major developments in performance management reforms in Xi's era (2012–present), this section attempts to provide some preliminary observations on the Chinese reformers' approach to relieving the tension between the two models.

Tackling data manipulation

One prominent reform measure is to tackle data manipulation at local levels so as to reduce the information asymmetry between the principal and the agent. National leaders have been investing heavily in strengthening information collection and monitoring infrastructures. For example, to enhance the quality of economic data, in 2004 the National Bureau of Statistics (NBS) started experimenting with a new GDP calculation system. Under the new system, the NBS does not need to rely on the economic data collected by local officials, which might have been inflated in the level-by-level reporting process. Instead, the NBS collects raw data directly from their origins, such as enterprises of a designated size, through online data collection and reporting systems. The NBS then uses this data to calculate the GDP of local governments. By bypassing local officials in the process of data collection and reporting, the reform effectively reduces the incentives and opportunities for outright data falsification (Gao 2016).

Another way in which national leaders combat data manipulation is by collaborating with independent, third-party organisations in data collection and provision. Studies show that the third-party organisations have played an important role in performance-based budgeting management. They offer necessary support to local governments that have limited administrative capacity to collect and analyse performance data on project operation (Zhao 2018). Another example is the reform in air pollution control. For a long time, manipulation of air quality data was possible because air quality was collected, monitored and reported by enterprises and local authorities. In the mid-2010s, Chinese central authorities made the decision to use the market—in this case accredited, independent third-party organisations—to collect local environmental data (Ministry of Environmental Protection 2015). These third-party organisations are profit-making firms that are financially independent of the government and the enterprises being monitored. They are qualified to conduct one or multiple types of environmental monitoring, and they help the national or local governmental operators of monitoring stations to collect, examine and report data to government institutions that need such data. One study finds

that the third-party monitoring has effectively reduced manipulation of air quality data based on a national data set that covers 338 prefecture-level cities in China (Niu et al. 2020).

Reforming the TRS and cadre evaluation

A second reform measure addresses the pressure that the TRS places on local agents. This measure involves abandoning some of the centralised elements in the TRS, in particular reducing the importance of economic performance to cadres' career prospects. Xi's administration has ceased the practice of developing a 'national-level design' (*dingceng sheji*) for TRS, a sharp contrast with the era of Jiang Zemin and Hu Jintao, when central authorities always developed a national version of the TRS with broad performance categories and items. These national-level frameworks offered guidance for local officials to develop their own evaluation schemes. By comparison, Xi's administration only released guiding thoughts on how to improve the evaluation of 'political achievements' (*zhengji kaohe*) as distinct from 'work achievements' (*shiji kaohe*) (Central Organization Department 2013).

Xi's reform approach emphasises the importance of taking a comprehensive and scientific approach in local government performance management and cadre evaluation. In particular, GDP is no longer the only determinant of 'success' and 'heroes'. On many occasions, Xi has repeatedly stressed that GDP and its growth rate should not be used as the most important criterion in evaluating a cadre's political achievements.

This means that the TRS should give higher emphasis to targets that focus on the quality, efficacy and sustainability of China's development. When developing evaluation indicators in accordance with their own situations, localities should give more emphasis to targets relating to sustainable economic growth, improvement of people's lives, social harmony and ecological environment protection; as discussed further below, party building must also be emphasised. GDP should be abandoned as a measure in areas that are poverty-stricken or ecologically vulnerable. In those areas, targets such as poverty reduction and ecological reservation should be highlighted.

Cadre evaluation should also be holistic, taking into consideration factors such as a cadre's morality, competence in work, job performance and public feedback. Moreover, cadre evaluation should pay attention to a cadre's ability to resolve problems and dilemmas in local development, rather than

narrowly focusing on the locality's GDP and growth rate. For example, local cadres should not achieve GDP growth by overborrowing from banks, which would cause high government debts. Furthermore, cadre evaluation should differentiate what had been done by a cadre's predecessors and what has been accomplished in the cadre's own tenure, and between a cadre's willingness to work hard and external conditions that might have affected the actual accomplishment.

If these measures are implemented smoothly at local levels, they may solve deeply rooted problems in China's performance management system. A major driver of local officials' data manipulation is that sometimes the top-down assigned targets are unrealistic and at odds with the local situation, and yet officials are held responsible for target accomplishment. Massaging or falsifying data has been a feasible and low-risk way to survive a tough evaluation system or to leap ahead in the promotion tournament. The central authorities' more stringent scrutiny of data in recent years has done a good job of addressing the problem of unreliable data and made data manipulation a much less feasible option for local officials—as the reform intended.

But this produces a new tension: on the one hand, it is important to obtain reliable performance data for the sake of effective policymaking, but on the other hand, with local officials now having to report accurate data, there is a higher likelihood of an otherwise favourably assessed candidate being harmed by poor performance against the targets. Fortunately, another aspect of the reforms—a more decentralised approach to implementing the TRS—gives local leaders greater flexibility to develop a fairer evaluation system for their local situation. In addition, by emphasising that cadre management should be based on a more comprehensive analysis of political achievements, local cadres are free to devote more attention and resources to areas that matter for social stability and harmony, the happiness and wellbeing of the people, and sustainable development. These are important for the party's legitimacy in the long term.

Xi's approach to performance management is evolutionary, but simultaneously a turning point. Since Hu Jintao's time, the Chinese central authorities have striven to balance economic growth and social development. Hu's reform aimed to add more targets on social policies to a very GDP-centred evaluation system, thus achieving a more balanced form of development. Xi's reform goes further, to tone down the importance of economic growth and place higher emphasis on the non-economic aspects of China's development. Nor does Xi's reform approach disregard

the important role that the TRS plays in local governance and cadre management: on the contrary, it recognises that the system is deeply woven into the fabric of China's governance system and can be useful in resolving local problems. The TRS remains the baton in the director's hand, guiding local policy implementation. The reform measures endeavour to adjust the TRS's direction so that it encourages local officials to adopt a more balanced form of development.

Prioritising party building

One salient feature of Xi's TRS reforms is that party building has been prioritised in local cadres' performance evaluation. In 2019, the Central Committee of the CCP updated the *Working Regulation on Performance Evaluation of Party and State Leadership Cadres*. Article 1 says that the overall purpose of the update is to 'insist on and strengthen the comprehensive leadership of the party and make sure the party manages itself strictly' as well as to 'establish high-quality cadre teams with firm beliefs who serve the people and are diligent and practical in work, willing to take risks, and honest and upright'. Such expressions were not used in the previous version of this regulation, promulgated in 2009 by the Hu–Wen administration. In addition, compared to the previous version, the 2019 regulation provides some specific guidance on how to assess a cadre's virtue, ability, diligence, work performance and integrity. For example, virtue should be assessed based on a leadership cadre's 'political and moral quality'. 'Political quality' refers to 'one's strong belief and loyalty to the party, dedication to the party's constitution, compliance with political disciplines and rule, maintenance of a high degree of consistency with the Central Party—the core of which is Comrade Xi Jinping—in thoughts, ideology and action'. 'Moral quality' refers to 'moral values' such as being honest and fair and 'dedication to social morality, professional norms, and family and personal virtues'. The assessment of a leadership cadre's work performance is based on 'an accurate view of political achievements'. The primary criterion for assessing the work performance of party secretaries is their effort in party building. Party building should also be given greater weight in the assessment of other party members in the leadership corps (Central Committee of the Chinese Communist Party 2019).

Under the central guidelines, local authorities have incorporated more detailed measurement of party building into their TRS schemes. For example, in 2020, Huanghu township of Yuhang district, Zhejiang

province, developed a TRS of party building for its villages. The system measured villages' performance on party building in seven categories: party discipline, organisation work, propaganda work, information work, trade union work, the Chinese Communist Youth League, and women's work. Each category contains concrete targets and indicators. For example, one target for information work is that each village should report at least twice a year about their work progress via their government portal websites. One target for the Communist Youth League work is that each village should assure that a certain minimum percentage of youth attend league building activities (Party Committee of Huanghu Township 2020).

Chen (2018) calls attention to a new and interesting initiative in Xi's era: the implementation of an 'ideological responsibility system'. Ideological correctness is a newly prioritised criterion in cadre evaluation and management, and integrated into local TRS schemes. Ideological responsibility has the same, or even more, weight as economic construction, political construction, cultural construction, ecological environment protection and party building. Cadres are expected to have 'four consciousnesses': consciousness of the need to maintain political integrity, to think in big-picture terms, to uphold the leadership core and to remain in alignment with the party's political stances and directions. Party committees at all levels are responsible for developing the ideological responsibility systems.

Future direction

This chapter shows that China's approach to performance management, if viewed from the perspective of the TRS and cadre evaluation, has been to reconcile two models—the principal–steward model and the principal–agent model—that differ in their core assumptions about how political principals should motivate and rein in bureaucratic behaviour. The reform has swung between the two ends of the continuum described by Bjurstrom (2020). The national leadership before Xi Jinping strove to develop a principal–agent system in performance management and saw that model as useful for resolving problems in the patron–client system. Xi's reform approach, by contrast, emphasises the values of the stewardship system that has contributed to the success of the CCP's rule. The TRS has treated local cadres as agents, while Xi's reform reasserts that they are also the party's stewards. Agents are driven by self-interest, but stewards may sacrifice

themselves for the greater cause—in Xi's own words, cadres should hold the spirit that 'it is fine if the success of a great cause is not achieved in my time' (*gongcheng bubi zaiwo*).

But this stewardship approach is premised on adherence to Xi's ideological position and the Central Party's policies. Those policies also go to extending the reach of the party. As Chen (2018) indicated, Xi takes the rejuvenation of the Chinese nation as his and the CCP's mission. But what Xi believed he was facing was the 'weakening of Party leadership, lack of Party building, indifference to Party ideology, weak organization, and discipline' (Chen 2018:298). In this context, it is not surprising that, under Xi, China's performance management would move to place greater emphasis on the stewardship in the cadre management and evaluation systems. As shown in this chapter, this shift is underpinned by the strengthening of political and ideological indoctrination of local cadres and the implementation of more stringent party discipline to restrain their behaviour, as well as modification of the definition of work performance. The TRS is still regarded as a useful toolkit for strengthening policy compliance and achieving desired results, but in Xi's era it is used even more to generate new Party momentum for the paramount leader's orientations.

The chapter leaves many questions and issues, particularly relating to reforming China's performance management system in the decades to come, to be addressed in future studies. First, Xi's reform seems to be contradictory in its approaches to reconciling the principal–agent and principal–steward models. The reform still uses the TRS, at least as one instrument, to achieve its goals of strengthening party building and aligning local cadres' goals with those of the central authorities. Methods such as the ideological responsibility system may be vulnerable to the persistent problems of the TRS—such as hitting the targets and missing the points—and therefore not be the most effective way to rejuvenate the cadre corps.

Second, are performance and patronage irreconcilable? In recent years there has been a growing discussion on this issue. It is interesting to note that some studies have found that patronage helps to improve performance (Choi 2012; Jiang 2018; Luo et al. 2020). For example, Jiang (2018) argues that patron–client relations can be used to improve government performance by resolving such principal–agent problems as divergence with the political hierarchy over goals. Analysing his database of city-level leaders during 2000–2011, he finds that city leaders with informal ties to incumbent provincial leaders deliver significantly faster economic growth than those

without. Will the strengthening of stewardship under Xi's administration improve performance in achieving China's political, economic and social development goals? Or will the strengthening of party discipline and the broadening of the party's role through 'party building' inhibit economic and social development? How will these changes affect the regime resilience?

Third, given the CCP's efforts to develop and improve information infrastructure and tackle data manipulation, how will the party use performance data in the context of the fourth information revolution? Will the use of big data and artificial intelligence, for example, strengthen authoritarian rule as it addresses longstanding information problems in China's bureaucracy? It is beyond the scope of this chapter to discuss this side of performance management in China, but it is unquestionably a crucial issue for future reforms.

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12

Evaluation in the Australian Public Service: What can the case of the Department of Foreign Affairs and Trade tell us about an enduring challenge for public administration?

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Abstract

Since the 1970s the evaluation of policies and programs has been viewed as essential for the efficiency and effectiveness of public policy and for accountability in the Australian Public Service (APS). Despite this, evaluation has varied in its practice and influence. At the time of writing, in

¹ The author was engaged over the 2012–20 period in DFAT’s evaluation function as a member of the Independent Evaluation Committee (2012–20) and as a member of the Audit and Risk Committee (2016–20). She was also a member of the National Indigenous Australians Agency (NIAA) Indigenous Evaluation Committee (within the Prime Minister and Cabinet portfolio) 2018–22. While DFAT officials commented on earlier versions of this chapter, her observations do not reflect views of DFAT or NIAA officials. The author is grateful to the many people who contributed information for this chapter and commented on it. These include Stephen Creese, Helen Dickinson, Peter Graves, Vanessa McDermott, Trish Mercer, Andrew Podger, Jenny Stewart, Peter Versegi and an anonymous referee. Valuable comment was also received from participants in the Greater China Australia Dialogue workshop in February 2021 and from a number of DFAT officials.

2021, it is still underutilised as an accountability and learning mechanism and has yet to cement its role in public administration in the Australian Government.

While the trajectory of evaluation and its current state in the APS is well understood, what is less well documented is its trajectory within individual government departments. This chapter documents evaluation of the Australian development program administered by the Department of Foreign Affairs and Trade (DFAT) over 2006–2020. It shows that evaluation in DFAT had a different trajectory to other parts of the APS, with the increase in scope and quality of the evaluation function in DFAT up to 2018 flowing from bipartisan government concern that Australian international development aid be effective, and be seen to be effective, and bolstered by the Public Governance, Performance and Accountability (PGPA) Act of 2013 (Cth). This was then followed by an abrupt decline, triggered by the COVID-19 pandemic.

Support for and promotion of evaluation in the APS is often seen as aligning with the political party that has formed government, with Labor governments being seen as more supportive of evaluation, and Coalition governments less so. However, this DFAT case study shows that policy area and individual ministers can be more important than political persuasion in the level of support given to independent evaluation. It also suggests the important role played by a department's culture, its closeness and responsiveness to ministers, the skills of its officers, and the policy instruments they use.

Overall, DFAT's evaluation trajectory demonstrates that even in agencies where there are strong drivers for a robust evaluation function, evaluation is vulnerable as a mechanism for public administration accountability and learning in the APS, particularly in agencies that are close to ministerial decision-making. The chapter concludes by arguing that, given 25 years of discretionary investment in evaluation within Australian government departments has failed to sustain it, evaluation will not flourish without being removed from secretary discretion and political considerations.

Keywords: development evaluation; evaluating government programs; the politics of evaluation; history of evaluation in Australia.

Evaluation and the Australian Public Service 1990–2020

Since the 1970s the evaluation of policies and programs has been viewed as essential for the efficiency and effectiveness of public policy and for accountability in Australia. From countless documents and reviews since then there has been ‘near universal endorsement of the need for evaluation, across all stages of the policy and program cycle’ (Gray and Bray 2019:7).

Evaluation is the practice of systematic measurement of the significance, merit and worth of policies and programs, undertaken to understand and improve decisions about investment. Evaluation involves the assessment of outcomes and operations of programs or policy compared to expectations, in order to make improvements (Weiss 1998).

Evaluation thus provides:

- credible evidence as to ‘what works’ and what does not work for evidence-informed and evidence-based policy
- credible evidence to inform implementation processes and their fine-tuning
- performance information to inform government resource allocation (known as performance budgeting) and
- products to fulfill government agencies’ accountability requirements to parliament and to the public.

These functions are referred to as ‘learning, management and accountability’. The effectiveness with which evaluation can fulfill these multiple roles depends on many factors including, but not limited to:

- a strong authorising environment,² including leadership and support from the departmental head, for quality independent evaluation
- good quality individual evaluations, which are dependent on factors such as skills of agency staff to commission and participate in evaluations, and good quality monitoring data and
- publication and widespread distribution of reports and findings.

² Under the theory of public value developed by Mark Moore, one of the tests for any public sector strategy is whether it is aligned with its authorising environment, that is, will politicians and stakeholders support the approach (Moore 2003).

To learn from evaluation, an agency needs to have a strong research and evaluation culture (PM&C 2019b:223). That is, a culture that supports and rewards inquiry, analysis and pursuit of evidence.

Despite a plethora of evaluation policies, reviews, commentaries and implementation practices, as shown in Table 12.1, while there have been bright spots of government support since 1990, evaluation has struggled to become a sustained and effective part of public administration in the Australian Government over the last 40 years (Graves 2020).

Table 12.1: Evaluation in the Australian Public Service (APS) 1990–2020.

Period	Government	Key events
1990s to 1996	Labor. Hawke then Keating governments.	Good progress. Portfolio evaluation plans were required from all departments and there was a central evaluation support unit in the Department of Finance (DOF). While there was initially pushback from some line agencies at the requirements and the level of DOF engagement, government programs were systematically evaluated every three to five years and evaluation findings were used to support new policy and savings proposals submitted to the Cabinet for its consideration (Mackay 2011).
1996–2007	Coalition Liberal–National. Howard Government.	Evaluation system was deregulated and evaluation languished. The Howard Government’s priority was to reduce red tape and simplify management, and with large budget surpluses there was less need to use evidence for decision-making. Evaluation requirements, particularly portfolio evaluation plans, were removed, after secretaries pushed for less oversight by, and reporting to, DOF. DOF retained little or no role in evaluation. (Mackay 2011). Some ‘islands’ of good practice remained: e.g. the Department of Employment and Workplace Relations conducted evaluations to demonstrate the improved cost-effectiveness of outsourced services for the unemployed (Jarvie and Mercer 2018). Department of Social Security published research plans.
2007–2015	Labor to 2013. Rudd, Gillard governments; Coalition 2013–2015. Abbott Government	Evaluation prospects improved. The <i>Public Government Performance and Accountability Act 2013</i> (PGPA Act) (Cth) was developed under the Labor Government, with the Coalition Government developing and implementing the associated PGPA Rule (2014). These elevated the importance of performance information in corporate plans and departmental annual reports and mandated a stronger role for audit committees in providing advice to the agency head on the appropriateness of the performance information. The secretary of DOF promoted the use of evaluation during his tenure (2009–2014). Detailed guidance on good performance information released by DOF (2015, 2016, 2017).

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Period	Government	Key events
2015–18	Coalition. Turnbull Government.	<p>Evaluation prospects continued to improve.</p> <ul style="list-style-type: none"> • PGPA Act implemented 1 July 2015 but slow progress in improving performance information (ANAO 2018). The independent review of the Act recommended there be a formal requirement that performance information must be 'relevant, reliable and complete' (Alexander and Thodey 2018), and that there be more effective and informed use of evaluation. Accepted by government. Opportunities for evaluation, particularly in complex policy areas, seemed to improve. • Indigenous policy: AUD10 million per year for evaluation and a new evaluation framework for its five-year AUD5.2 billion Indigenous Advancement Strategy (PM&C 2018). Productivity Commission (PC) Inquiry to develop an evaluation strategy for all Indigenous policies and programs (PC 2020). • The Independent Review of the APS commissioned papers on evaluation and learning in the APS (Bray et al. 2019). • Greater recognition of evaluation as a profession (Gruen 2018). The establishment of <i>Better Evaluation</i> (betterevaluation.org) as an independent organisation providing resources and leadership for the profession both domestically and internationally.
2018–2021	Coalition. Morrison Government.	<p>Evaluation retreat. Continuing rise of big data and preference for real-time information.</p> <ul style="list-style-type: none"> • Response to the Independent Review of the APS (PM&C 2019a): <ul style="list-style-type: none"> – Government rejects key elements on enhancing evaluation and research (recommendation 25), and did not respond to suggestions that there be minimum standards – the Secretaries Board advises the government to reject recommendation on having mandatory requirements for formal evaluation in Cabinet process and budget rules (recommendation 26) – government focus on improving data and digital capability, having data champions in agencies – priority to reducing 'bureaucratic congestion' (PM&C 2019a:11). • New PGPA rules (Section 16EA(d), as per the PGPA Rule in 2020) do not incorporate requirement for performance information to be complete, only that a mix of qualitative and quantitative information was needed (Department of Finance 2020), reducing potential role for evaluation. • The government did not respond to the PC proposals to strengthen the evaluation of Indigenous programs.

Source: See sources throughout table.

Why has there been such a failure to embed evaluation into public administration in the Australian Public Service?

The reasons for such a weak investment in evaluation and use of its results in the Australian Public Service (APS) have been commented on at length elsewhere, with commentators suggesting a variety of factors:

- The lack of incentive to evaluate programs in an environment where governments and ministers were seen to want to increase their control of the public service and minimise scope for criticism (Graves 2020; Halligan 2020).
- The discretion secretaries have in choosing whether to evaluate programs or not (Gruen 2018; Graves 2020), and departments' preference for using other performance measures such as case studies and quantitative information, which are less troublesome.
- The high turnover of secretaries in the APS, which undermines the embedding of public administration reforms, added to the lack of evaluation skills (Graves et al. 2021).
- The lack of systematic learning in the APS. Australia does not have a good reputation for learning—it is better at fixing things and problem-solving and working in relatively short time horizons, than it is in investing in reflection (Bray et al. 2019). The APS is highly responsive to ministers, which also promotes shorter time frames and less reflection (Stewart and Jarvie 2017).

While the failure to embed evaluation in the APS is well understood, it is also acknowledged that evaluation use in policy and program management has varied widely between APS departments. One department that has received little commentary in the public administration literature is the Department of Foreign Affairs and Trade (DFAT). The case study (below) makes clear that elements of DFAT's evaluation trajectory did not mirror those of the broader APS, and that the interaction of broader developments in the APS with DFAT's culture, program responsibilities, policy instruments, skills, and political and policy environment led to firstly a strengthening of the evaluation function over the 2007–2018 period, and then its decline.

The DFAT case could be seen to be an outlier in the APS and raises the question as to whether insights from an such an exceptional case can lead to deeper understanding of evaluation in the APS. However, methodologically

it is well established in the social science literature that the study of outliers can deepen understanding. In particular, outliers can identify moderating factors where the ‘norm’ does not appear to apply (see, for example, Gibbert et al. 2021 with regard to management research, and Sharifi et al. 2014 in approaches to reduce childhood obesity). Outlier case studies are also used to indicate areas worthy of further research. It is in this spirit that the DFAT case is offered below.

Evaluation in DFAT 2006–20

DFAT is a major Australian government department being responsible for foreign, trade and development policy and programs including consular and passport services and a AUD4 billion-a-year development aid program. In 2020 it had around 6,000 staff, of which approximately half were in 120 overseas posts in 84 countries (DFAT 2020a). In terms of functions the biggest change in recent years occurred in 2013 when the new Coalition Government decided to merge it with AusAID, the executive agency responsible for development aid programs and policy. This led to a major restructure, with the AusAID development programs and personnel being integrated into the DFAT geographic divisions and groups.

A. Evaluation in AusAID to 2013

Prior to the merger with DFAT, AusAID, as a separate executive agency in the Foreign Affairs and Trade ministerial portfolio, had its own performance management and evaluation arrangements under the government’s aid policy, *An Effective Aid Program for Australia: Making a Real Difference—Delivering Real Results (Effective Aid)* (AusAID 2012a). This was a sophisticated framework, with comprehensive monitoring and evaluation at the agency, program and initiative levels and clear accountabilities. There was an annual review to Cabinet on outcomes.

Office of Development Effectiveness

A key element of the evaluation framework was the Office of Development Effectiveness (ODE), a central unit independent of program managers, which undertook strategic evaluations and an annual synthesis of evaluation results as well as quality assurance on project-level and country-

level monitoring (QAIs and APPRs³) (AusAID 2012b). ODE had been established by the Howard Government in 2006 following the White Paper on Australian Aid (AusAID 2006), which provided the blueprint for the doubling of the aid program from AUD2 billion in 2006 to AUD4 billion in 2010. The government wanted to be assured of the effectiveness of the increased spend, not least because the aid program had assumed a more prominent role in Australia's national security agenda by delivering critical development programs in what was then known as the 'arc of instability' from East Timor through to the south-west Pacific states. ODE became the central focus and driver of the post-White Paper development effectiveness agenda, establishing a new performance management system, embarking on a more systematic and strategic approach to evaluations (including sentinel evaluations such as on violence against women, service delivery in fragile states and country evaluations on Indonesia, Timor Leste and Cambodia) and increasing the amount of publicly available performance reporting.

Following its influential initial years, changing leadership and the transfer of performance management responsibilities to another area of the department meant that ODE had had limited output and influence between 2009 and 2011, with few publications completed (Adams 2019). However, its role was strengthened after the Labor Government's 2011 Aid Effectiveness Review (AusAID 2011), which recommended that ODE continue under the auspices of an Independent Evaluation Committee (IEC).

Independent Evaluation Committee

The IEC was established in 2012, with Jim Adams, a former World Bank vice-president, at its head, with two other independent members as well as an AusAID deputy secretary. A senior official from the Department of Finance attended as an observer. The IEC oversaw all ODE work—agreeing on work programs and overseeing each stage of evaluation reporting, from concept note, through terms of reference, evaluation plans, and draft reports to final reports. All reports would be published. The IEC reported to senior AusAID management as well as to a Development Effectiveness Steering Committee, an interdepartmental committee of senior public servants charged with advising government on aid, thus assuring a measure of independence from program administration. The IEC and ODE communicated with the AusAID audit committee to avoid duplication and operated on similar principles, including following up on the implementation of evaluation recommendations. Within AusAID, evaluation was a part of the program cycle (see Figure 12.1).

3 QAI: Quality at Implementation (the annual review of an initiative/activity). ARPP: Annual Review of Program Performance (the annual review covering all programs and initiatives at the country level).

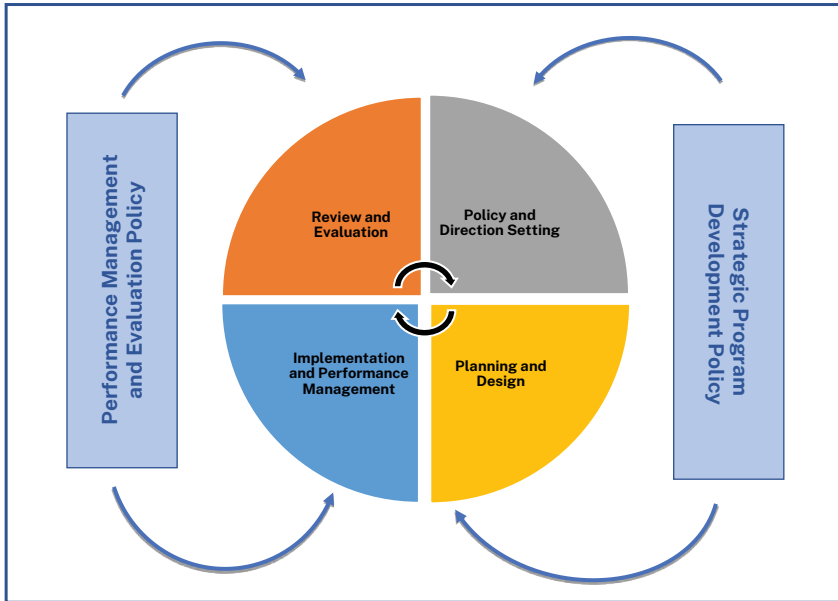


Figure 12.1: The aid management cycle in AusAID.

Source: Internal DFAT documents and AusAID (2012b).

B. Evaluation in DFAT 2013–18: Strengthened role

A new performance framework

When the new Coalition Government merged AusAID into DFAT in 2013 the evaluation arrangements continued, even though the government signalled there would be no increase in the aid budget—indeed, it cut the allocation in the 2014–15 and subsequent budgets. ODE continued, with slightly reduced staff, and the IEC chair now reported to the DFAT secretary. The new Coalition minister oversaw development of a new performance framework for the aid program ('Making Performance Count' (DFAT 2014)) which included an annual report the 'Performance of Australian Aid' (PAA; see Figure 12.2). ODE undertook strategic evaluations (at thematic and country levels), while program areas undertook program-level evaluations, occasionally in partnership with ODE.

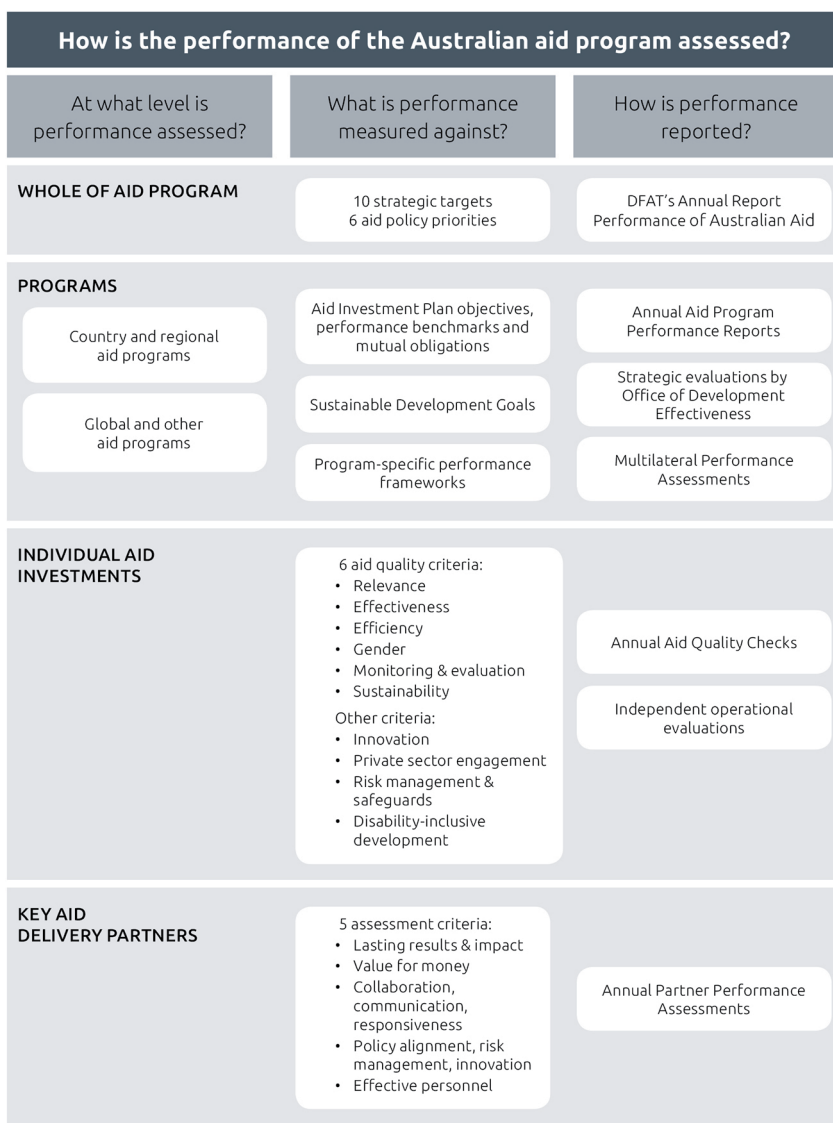


Figure 12.2: Performance of Australian Aid (PAA) performance framework.

Source: DFAT (2018b:4).

Expanded role for ODE and the IEC

With the PGPA entering into force in 2015 the role of ODE and the IEC was broadened to include quality assurance and the verification of performance information for the PAA, information which was also used

in DFAT's annual report. This quality assurance/verification was done on a risk basis with effort focused on the accuracy of the self-assessed Quality at Implementation ratings (QAIs, later called aid quality checks (AQC)) through a series of independent ODE spot checks. By 2019 all AQC done on completed projects were being verified by ODE. Effort was also focused on reviewing the evidence behind assessments made by program managers in the ARPPs (country-level assessments).

Evaluation policy changed from compliance-driven to demand-driven

In 2015 ODE became responsible for the evaluation policy for all aid activities, not just strategic evaluations, and a new evaluation policy for development aid in 2016 reflected this (DFAT 2017a). The new evaluation policy sought to improve the quality, relevance and transparency of evaluations by changing from the previous compliance-driven policy—which required all investments over AUD3 million to be evaluated at least once in their life—to a demand-driven model, where program managers would choose what they would evaluate based on need. ODE would undertake larger-scale multi-country/sectoral strategic evaluations and provide technical support for operational evaluations. The new evaluation policy created a coherent framework for operational evaluations, and an annual 'Aid Evaluation Plan' for all aid activities was published, as was its implementation. The first plan was in 2017. In 2016 the new head of ODE was promoted to first assistant secretary (FAS), conveying a message that evaluation had priority in the expanded mandate of DFAT. Interest in evaluation developed in other parts of DFAT and the then head of ODE had discussions with DFAT divisions as to whether ODE could assist them with their accountability and learning functions. He found initial interest from the trade, consular and passport areas to be brought into the evaluation plan, noting that they would need support from ODE to undertake any evaluations.⁴

Stronger links with Audit and Risk Committee

Given the IEC and ODE had to provide assurance as to the quality of performance information that went into the annual report, and DFAT's Audit and Risk Committee (the ARC) had to advise the secretary as to the appropriateness of entity performance reporting, an independent member of the IEC was appointed to the ARC in 2016.

⁴ Peter Versegi, personal communication.

The new evaluation and performance reporting arrangements were seen as successful, though not perfect

- a. **ODE evaluation** output increased from an average of two per year in 2006–13 to seven per year 2014–2017. The publication rate of program evaluations went from 40 per cent to 95 per cent. The quality of ODE evaluations increased, with two evaluations winning national awards⁵ (Slattery and Jarvie 2017). Follow-up of the uptake of ODE recommendations showed that there had been impact on aid projects (DFAT 2018d). For example, the Pacific humanitarian evaluation (DFAT 2017c) promoted localisation and use of cash transfers in humanitarian responses, and the pandemic evaluation findings that stressed the slow progress in the implementation of the International Health Regulations and the fragility of the gains that had been made in laboratories, governance and leadership, helped guide new regional health security investments (DFAT 2017b, 2019).
- b. **Transparency.** As part of their commitment to transparency and credibility, IEC and ODE members participated in biannual seminars held at the Development Policy Centre at The Australian National University, where ODE reports were discussed with academics in open forums.
- c. In **performance monitoring**, IEC and ODE were able to form supportive yet robust relationships with aid management, and so when issues arose—such as an unexplained rise in the effectiveness of aid projects in 2016—the problems were able to be sorted out (Adams 2019).
- d. **International recognition.** The arrangements were well regarded internationally, with the OECD Development Assistance Committee commenting favourably in its 2018 peer review that Australia had maintained ‘a strong, independent evaluation system that is well placed to address strategic issues and priorities’ and that the strengthened role of ODE ‘helped ensure the quality and rigour of DFAT results reporting and improved the influence of evaluation findings within DFAT’ (OECD 2018:93). USAID used the report ‘Banking our Aid’ as training for its own staff.⁶

5 *Evaluation of the Australian Volunteers for Internal Development (AVID) Program* (DFAT, January 2014) won the Australian Evaluation Society Award for Excellence in Evaluation, Public Sector Evaluation Award, 2014 and the *Evaluation of the Australian NGO Cooperation Program Final Report* (DFAT, August 2015) won the same award in 2016.

6 Peter Versegi, personal communication.

- e. **Domestic recognition.** Domestically DFAT was seen as an evaluation leader in the APS. Australia's Aid Program was described as 'an exemplar of comprehensive and effective evaluation programs' (National Commission of Audit 2014:58). The Independent Review of the Public Service identified it as one of two agencies where evaluation was done well (PM&C 2019b). The secretary and minister made supportive statements (Howes 2020).
- f. **Weaknesses.** There were some weaknesses still—program evaluation quality was variable, with around 30 per cent of reports being of less than adequate quality (DFAT 2016, 2018d, 2018c). ODE struggled to undertake country evaluations successfully (Adams 2019). Monitoring and Evaluation (M&E) for many individual projects was weak, with ODE's annual spot checks of QAIs and later AQC's regularly reporting a large proportion as having unsatisfactory M&E systems. Evaluations commented on the poor quality of program monitoring data. There was a significant lack of quantitative and outcome data. For example, a review of teacher training projects in DFAT found there was no DFAT evaluation that could show the impact of teacher training on students' learning and skills (DFAT 2015; Adams 2019).

Nevertheless, in hindsight, 2014–2018 was a high point for the evaluation function in DFAT.

C. Evaluation of development programs in DFAT 2018–20: Significant decline

Some strains first appeared in 2018. The head of ODE (a FAS) was moved to a new position at short notice and the position was filled on an acting basis for more than six months. In August, DFAT's Aid Governance Board, despite ODE and IEC's reservations, removed the assessment of the M&E arrangements for projects from the annual quality check.⁷ The rationale was the need for streamlining and reducing workload. Strategic evaluation output from ODE declined—whereas in previous years around seven strategic evaluations were published each year, in 2019 there were only three. An expected public launch of major ODE study on Ending Violence Against Women and Girls did not proceed in late 2019, despite its positive

⁷ Aid quality checks (AQC's) were annual checks done for all projects over a certain size. In 2018, program managers rated projects on six criteria—efficiency, effectiveness, relevance, M&E, gender, and sustainability. At the August 2018 meeting, relevance, M&E and sustainability were removed.

findings. Meanwhile, when Jim Adams retired from the position as chair of the IEC in May 2019 he was not replaced. The IEC continued for a few more months until it no longer had a quorum when another member's contract expired in early 2020.

Into this vulnerable situation the COVID-19 pandemic struck in early 2020. The work of DFAT was transformed, with every resource focused on the immediate tasks of bringing DFAT officials back to Australia, supporting remaining officials and locally engaged staff, helping stranded Australians get back home, and supporting DFAT staff in Australia and overseas to work from home. The development program rapidly pivoted to help partner countries deal with the impact on their health systems and their economies (DFAT 2020a). Evaluations were halted as staff were diverted to urgent tasks, both within DFAT and in other departments. While some program evaluations were finished, no ODE evaluations were published in 2020 despite three such evaluations, including on highly relevant topics such as Pacific infrastructure assistance, being significantly progressed.

Work on the new performance framework was shifted to a framework to support Australia's efforts to partner with countries, particularly in the Pacific, to help deal with COVID-19 and its impact. The minister announced the new performance framework for aid in May 2020, which did not include ODE (Figure 12.3) (DFAT 2020b). There were to be no more strategic evaluations and ODE had been quietly abolished. The Office of the Chief Economist would be responsible for evaluation policy as it applied to the development program, with a small evaluation unit, headed at director level (below branch head) and a small team. There would continue to be a Development Evaluation Plan signed off by the secretary, with program managers (first assistant secretaries) deciding which programs would be evaluated. Unlike the 2016 evaluation policy, the 2021 policy does not publicly commit DFAT program managers to doing a minimum number of evaluations each year and there is no process for review of the strategy (DFAT 2021). The annual quality check of investments would continue, as would the final independently verified AQC for completed projects.

No public rationale was provided for the abolition of ODE and the IEC apart from in officials' answers at Senate Estimates hearings where they maintained that the decision was entirely a matter for DFAT, not ministers, and that the evaluation function would continue as before.

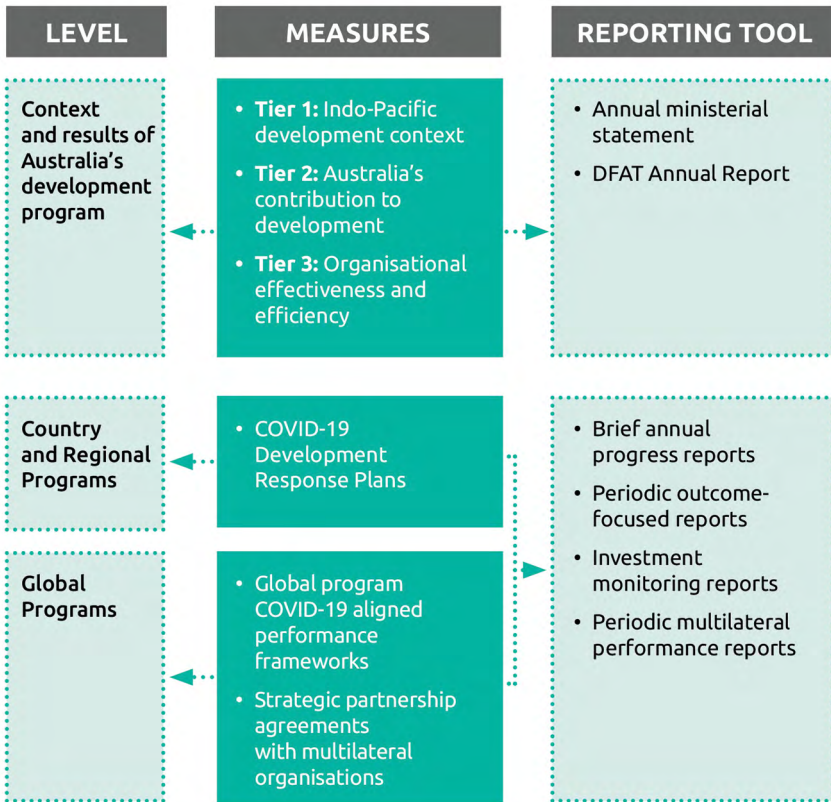


Figure 12.3: Performance framework for *Partnerships for Recovery: Australia's COVID-19 Development Response*.

Note: Evaluation and the Office of Development Effectiveness are no longer mentioned.
 Source: DFAT (2020b).

Why was the evaluation trajectory in DFAT different to the broader APS?

The trajectory of the evaluation of development programs in AusAID/DFAT was at times at odds with broader trends in the APS. In particular, in the 2000s the evaluation of development aid programs was strongly supported by the Coalition Howard Government at a time when evaluation was languishing more broadly in the APS. Conversely, the sharp decline after 2018 under a Coalition Government occurred when evaluations in other areas of the APS (such as Indigenous programs) were continuing.

This chapter postulates that several factors specific to DFAT were at play. Four are discussed here: (i) the policy area (international aid); (ii) DFAT's culture, values and skills; (iii) resourcing pressures; and (iv) the authorising environment, including ministers and their officers.

(i) Evaluation is a standard management process in international development

The policy area—international development—and the policy instruments used for it were a strong positive influence on evaluation activity in AusAID/DFAT. Rigorous M&E is very much the 'norm' in international development. Program evaluation began relatively early in international development, with the World Bank starting in 1970. This was followed by other multilateral development banks. The OECD Development Assistance Committee focused on the evaluation of the effectiveness of development assistance from the 1980s. The United Nations Development Program set up an independent evaluation office and development donor countries such as the UK, Canada, Norway, the US and Germany established evaluation systems, frequently with significant independence from government. More recent developments include China, which in 2018 established a separate stand-alone aid agency—the China International Development Cooperation Agency (CIDCA)—with an M&E function. It recently released aid policy which prominently committed to systematic evaluation.⁸ There are active evaluation organisations focusing on the evaluation of development programs, such as 3IE (the International Initiative for Impact Evaluation). Evaluation activity is continuing—in 2020 the Global Evaluation Initiative was launched, aimed at strengthening evaluation and monitoring systems and capacities throughout the world.

The heavy emphasis on evaluation is thus a feature of the international development policy landscape. The policy instruments used—project financing and technical assistance—are amenable to evaluation as they are usually discrete and well documented. Methodologies are well established, with general agreement on the standard elements of evaluations—effectiveness, efficiency, relevance, impact and sustainability—and their definitions. It is not surprising then that as Australia is an active participant

8 'We will develop complete systems of impartial and independent project evaluation, set sound and effective evaluation standards, conduct comprehensive evaluation and special evaluation, and strengthen the application of evaluation results' (People's Republic of China 2021).

in international forums, and with strategic partner countries, it has accepted the evaluation of aid programs as a normal part of aid management and reporting.⁹

(ii) DFAT culture, responsiveness to ministers and skills at odds with evaluation

AusAID, prior to its merger with DFAT, was to some extent arm's length from ministers and this had been formalised in 2010 when it was made an executive agency. It was staffed by a mix of generalists and technical professionals. The dominant policy instrument used was the development project, managed by AusAID officers, and increasingly, by managing contractors. The sums involved were large. AusAID officers were often content experts (e.g. in education, infrastructure) but most of all, were trained to manage projects according to the management cycle shown in Figure 12.1. While they were always alive to political environments, both domestically and in partner countries, they were able to operate with a certain level of independence from the government of the day.

DFAT, prior to the merger, was a mix of policy and service delivery activities, with the passport and consular functions requiring tight management capability. However, the dominant culture was driven by the overseas posting cycle, and the skills valued were those of diplomacy, including capacity to manage relationships and influence others. Also valued was the ability to deliver on ministers' agendas and requests (APSC 2013). Human resource management was based on the concept of the career diplomat who was a 'talented generalist' with a 'can-do' approach (APSC 2013:4), intelligent and capable enough to manage a wide range of tasks and to learn on the job. While there were specialists, such as in legal and IT areas, they had limited scope to rise in the hierarchy. The dominant training was in languages, and, if needed, 9–12 months training was provided prior to postings.

The merger of DFAT and AusAID in 2013 brought development projects much closer to government decision-making. It also brought two different cultures and policy instruments together, and people with very different skills and mindsets. While the very senior leadership of DFAT reinforced

⁹ Note that in some policy areas, such as climate change, Australia has been prepared to chart a different course.

the important role that development professionals played (e.g. Adamson 2019), many former AusAID officers became dispirited by the merger, and left the department.

Many DFAT officers in charge of development projects did not understand the need for strong process management, including the need for M&E. Evaluation, particularly independent evaluation reports released publicly, was a new and problematic concept. One DFAT officer noted that diplomats 'do not understand why you would pay someone to find what went wrong, which would then be just a headache for the minister and the department' (personal communication). They were also concerned about creating problems with foreign governments if an evaluation drew attention to partner government weaknesses. Cultures that support evaluation must be robust enough to admit to failure. But the pre-merger DFAT culture was risk-averse (APSC 2013) with an unwillingness to admit error. Even after the merger and with the enhanced performance reporting requirements of the PGPA, DFAT annual reports continued to be dominated by case studies of success, with few records of less successful activities (see ANAO 2018). In short, DFAT did not have a strong performance culture, which is essential for strong M&E systems (DFAT 2018a).

In this, much of the DFAT/AusAID merger experience mirrors that of the merger of Indigenous programs into the Department of the Prime Minister and Cabinet in 2014, where large delivery programs were brought into a department close to the prime minister and with little recognition of the cultural incompatibility of the components, driven by different skills and values (Buick et al. 2018).

The Australian experience of integrating its aid functions into foreign affairs functions also mirrored that of other countries such as Canada and the UK (Gulrajani 2018).

(iii) Resourcing pressures in policy and diplomacy led to pressure for aid management to be streamlined

Over decades, Australian governments have been reluctant to provide DFAT with staffing resources to match the growth in complexity of their work and to meet the expectations of the public and minister. The Lowy institute regularly documented DFAT staffing cuts and budget outcomes,

and in 2020 noted that for decades its budget, after adjusting for inflation ‘has been not just frozen but in decline and by 2022 will be smaller than it was 15 years earlier’ (Pryke 2020).

There was temporary respite in 2013 when it was merged with AusAID. Even though total staff numbers were immediately cut by 500, the merging of AusAID functions into country teams meant DFAT had more flexibility and capacity to meet pressures from the diplomatic and broader policy work. However, resourcing pressures undoubtedly weakened program management. This was not really recognised until 2018 when an ‘Aid Health Check’ was undertaken, which found a lack of skills in aid management, including such things as the basics of contract management and monitoring.

Given the resourcing pressures and DFAT’s weak performance culture, it is not surprising that when COVID-19 hit in March 2020 evaluation activity was wound back. However, it was still possible that a comprehensive evaluation function could have been resuscitated except that a significant change in the authorising environment had occurred in 2018. The support for evaluation from government and the minister had changed.

(iv) The authorising environment – especially ministers, and their offices – gave strong support to 2018 but then withdrew

Up to 2018 there was strong support for evaluation of international aid programs from every minister, regardless of their political party. But in August 2018 there was a change of minister and prime minister (although still within a Coalition Government). The previous minister, Julie Bishop, had been a strong supporter of the need for performance measurement and public accountability. However, after the 2019 election and the return of the government, the new minister did not replace the retiring IEC chair. Meanwhile, there were strong messages from the government that the oversight arrangements for development projects needed to be streamlined, particularly given the tight resourcing environment. The new prime minister had told departmental heads in 2018 to reduce regulation and to focus on ‘congestion-busting’ to speed up activities and programs (Tingle 2019; Morrison 2019). The decision was taken by DFAT to cease to do strategic evaluations while enhancing data analysis and retaining program evaluations, and to abolish the ODE. The minister had allowed the IEC to cease.

Conclusion

Evaluation has struggled to become embedded in the APS as a routine function that contributes to management, accountability and learning. However, for many years it appeared that evaluation of development assistance in DFAT was immune to that broader struggle. It was a leader in evaluation in the APS. Its development aid evaluation function had been established through high-level and highly consultative White Paper and Independent Review processes. It had systematic processes for evaluation of programs and strategies, an Office of Development Effectiveness, and an Independent Evaluation Committee. However, even with the positive force of the PGPA Act, when support from key parts of the authorising environment changed in 2018, and with resourcing pressures associated with COVID-19,¹⁰ DFAT was unable to sustain a comprehensive evaluation program in the development aid area, let alone extend it to other parts of DFAT activities.

This suggests that even in an agency where there are strong moderating factors—policy area, international evaluation ‘norms’—evaluation in the APS is vulnerable.

More broadly, the DFAT case study challenges the notion that support for, and promotion of, evaluation in the APS is *always* aligned with the political party that has formed government, with Labor governments being seen as more supportive of evaluation, and Coalition governments less so. In fact, this study shows that individual ministers as well as policy area can be as important as political persuasion in the level of support given to independent evaluation in the APS.

In particular, it demonstrates the importance of policy area in influencing the level of evaluation activity. Around the world, international development aid has been vigorously evaluated since the 1970s. There are international standards and peer review processes, and policy instruments that are amenable to robust evaluation methodologies. It is not surprising then that in Australia evaluation of international development aid has also had a strong track record. In this respect, it is worth noting that, even after the reduction in ministerial support, in 2021 DFAT had still retained an annual

10 Note that DFAT finally acquired additional staff—160 in the 2021 budget—and a substantial increase in the development aid budget; however the strategic evaluation function has not been reinstated.

program evaluation plan for international development assistance, and a commitment to the publication of evaluation findings, which put it ahead of many other APS agencies.

The case study also shows that a department's investment in evaluation activity could also be a function of its performance culture which, among other things, is influenced by the capabilities of its officers and its closeness and responsiveness to its minister.

All these issues are worthy of further exploration through case studies of other Australian government agencies.

This discussion prompts some broader observations.

There have now been 25 years of having evaluation as a discretionary activity in the APS, being undertaken in accordance with the priorities of the departmental leadership and under the influence of ministers and governments, and it has failed to be sustained. There is clearly a need for a different approach.

The first necessity is to move away from regarding evaluation primarily as a technical function that contributes to evidence-based policy design and program management, and to recognise that to many government decision-makers it is a political activity which needs to be controlled (see Weiss 1993). The political dimension of technical functions has also been recognised with regard to performance budgeting (Ho 2019). In the end, evaluators are criticising government activities and it is not reasonable for such functions to operate effectively within a government without formal protection. This is the case, for example, for audit and financial reporting functions.

The importance of removing this discretion and mandating evaluation in Australia has been argued before (e.g. Gruen 2018). Other countries have seen the necessity. In particular, in 2018 the USA passed the Foundations for Evidence-Based Policymaking Act which mandates that each agency must develop a systematic plan for identifying and addressing policy issues and designate a senior official as the Evaluation Officer to coordinate the evidence-building activities. This Evaluation Officer is also a leader on data improvement activities, thus aligning 'big data' initiatives with the evaluation function. The Office of Management and Budget is also required to provide expertise, resources and guidance to federal agencies.

There are many different ways evaluation could be mandated in Australia, such as strengthening the PGPA Act to require evaluation and reporting, or including evaluation as an essential element of a secretary's 'stewardship' function under the Public Service Act. However, it is probable that without such action evaluation is likely to continue to be marginalised, with APS agencies' limited analytic resources focusing on quantitative data analysis, disconnected from the evaluation function.

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Part 3: The civil service

The chapters in this section explore further the relationship between politics and administration, and the concept of ‘merit’—the subject of a symposium arising from the 2013 Dialogue workshop published in the *Australian Journal of Public Administration* (Volume 74, Issue 3). China’s ancient system of civil service examinations (intellectual selection by writing abilities) long predates the emergence of a professional civil service in Western democracies following the 1854 Northcote–Trevelyan Report in the UK, the 1881 Pendleton Act and 1886 Woodrow Wilson lecture in the US, and the translated writings of Max Weber on bureaucracy and political sociology. The PRC’s approach does not follow the Westminster model of a neutral, professional service loyal to but separate from the political leadership (and similar to the system operating in the US but with some intentional senior level politicisation), but merges the administrative and political through its cadre system and the party-state. Taiwan has established a neutral, professional civil service since the democratisation reforms in the 1990s drawing heavily on the traditional examinations system and retaining features, such as appointment to levels rather than to jobs, that differ from the main Westminster approaches.

The earlier symposium revealed not only how the concept of merit varies across the three jurisdictions, but also that it is not constant in any jurisdiction: it evolves over time. The chapters here explore how the civil service in each jurisdiction is continuing to evolve. They confirm the very different approaches used, most sharply between those in the PRC and those in Australia. But interestingly they also reveal how the civil service in these two jurisdictions both seem to be facing increased political pressures that may be curbing their capability.

Shuo Chen and **Hon Chan** review the PRC’s ‘political meritocracy’ approach, which aims to strike a balance between administrative rationality and political prerogatives, drawing in part on Confucian concepts. Since 1949, the Chinese Communist Party (CCP) has inserted meritocratic principles into cadre selection. Deng Xiaoping strengthened these to ensure cadres were ‘both red and expert’. More recently, political and meritocratic indicators have been articulated in five dimensions of cadre evaluation, aimed to promote job performance as well as political and ideological standards. While politics and administration remain entwined, two different career paths have emerged—a political realm for political appointees and an administrative realm for career appointees. Although not all civil servants are party members, it is likely all principal and high-level civil servants are, and the CCP’s ‘nomenklatura’ system maintains close control of the political

realm. In the administrative realm, the CCP relies on the Civil Service Law to apply meritocratic measures, providing predictability to management and enhancing administrative capacities.

There are of course tensions in such a system, with problems of political patronage and abuse of power and the risk of focusing on recruitment and selection with insufficient attention to the skills necessary for managing the job. The current emphasis under Xi Jinping is on centralised party control but new circumstances and opportunities may later revive the importance of managerial capacity and bureaucratic rationalism.

Bennis So and **Chih-Wei Hsieh** provide an account of the development of Taiwan's civil service under democratisation since the 1990s, with a comparison between current arrangements and Hong Kong's postcolonial civil service. Much of Taiwan's approach originated in Republican China under Sun Yat-sen, particularly the establishment of an Examination Yuan as an independent arm of government to check against the executive's personal authority (and prevent nepotism and sinecures). With democratisation, the civil service was depoliticised and legally protected from political interference, spearheaded by the Examination Yuan. New public management influenced Taiwan's reforms from the early 2000s, leading to the introduction of performance management at the organisational level, but recruitment and promotion were still based on levels, not positions, all positions remain permanent and individual appraisal has failed to take hold. A survey of street-level civil servants in Taiwan and Hong Kong in 2019 (amid Hong Kong's civil disruptions) reveals that Hong Kong seems to have a higher degree of meritocracy with better links to job requirements, but Taiwan's civil servants are slightly more aligned to their organisations' values and culture, and experience more professional autonomy and ability to respond to citizens. So and Hsieh conclude that democratisation has led directly to improvements in civil service performance in Taiwan, protected from political interference but still responsive to the public.

Andrew Podger and **John Halligan** draw on major reviews of the Australian Public Service (APS) over the last decade to assess its current capability. While the APS is more highly educated than ever, has been largely successful in pursuing equal employment opportunity, makes better use of technology and draws more on external expertise than previously, the reviews have identified serious concerns including: loss of capability in strategic policy advising and human resource management; leadership deficiencies; a failure to build on improvements in financial management over previous decades

or to adequately address risk management; and insufficient investment in digital capacity. These weaknesses reflect the impact of three major themes in public service development not only in Australia but also in other Anglophone countries: politicisation, managerialism and externalisation. The APS as an institution has suffered in particular from excessive politicisation and excessive use of external consultants and contractors. While some action was taken by the previous government in response to the latest (Thodey) review, key recommendations concerning the underlying problems were rejected. That said, trust in the APS by both the government and the public increased significantly during the response to COVID 19. The new government elected in May 2022 has promised to revisit the Thodey recommendations that had been rejected, but it is too early to assess whether this will successfully rebuild the capability of the civil service.

Key conclusions to draw from the chapters in this section include:

- The importance of civil service capability and performance;
- The diffusion of new public management ideas not only to democratic Taiwan but also to authoritarian PRC, but with ideas that have been adapted considerably to fit into the respective institutional frameworks;
- The Australian case demonstrates that those ideas have had their downsides as well as their benefits, and need to be recalibrated if civil service capability is to be protected and enhanced to meet emerging challenges;
- Increased political control presents a serious risk to capability in both the PRC and Australia (and probably Taiwan as well).

Civil service developments are intimately associated with the financial management emphasis on performance discussed in the previous section, and are also directly relevant to the challenges of service delivery explored in the following section.

13

Political meritocracy in Chinese cadre personnel management

Shuo Chen and Hon S. Chan¹

Abstract

This chapter illuminates how the Chinese Communist Party (CCP) implements the idea of political meritocracy in its cadre personnel management. First, the chapter introduces the notion of political meritocracy and provides an overview of extant literature. Second, based on empirical evidence, it illustrates how the CCP puts political meritocracy in practice by examining three important aspects of Chinese cadre personnel management. Third, it analyses the rationale and functions underscoring political meritocracy in a highly integrative state such as China. Finally, it concludes by examining the challenges and prospects in implementing political meritocracy including in the Xi Jinping era. This chapter shows that political meritocracy is not just an abstract concept. Instead, it is a real policy tool in Chinese cadre personnel management. For countries like China with no divide between politics and administration, political

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meritocracy provides a means of achieving administrative rationality while maintaining adherence to political values of fundamental importance for regime resilience.

Keywords: political meritocracy; Chinese cadre personnel management; Chinese Communist Party; Chinese Civil service.

Introduction

Meritocracy has been embraced as a principle in modern bureaucracy. As a management principle, meritocracy encourages specialisation, division of responsibility, span of control and efficiency, and provides protection against a culture of favouritism, nepotism and inherited privilege. Following Northcote and Trevelyan (1854), both Woodrow Wilson (1887) and Max Weber (1946) subscribed to the notion of administrative efficiency, proposed to separate politics and administration, and strived to insulate bureaucracy from inappropriate political influence: the democratic process would ensure government reflected the will of the people, but administration would be conducted efficiently and impartially.

Given that liberal democracy is only one of the many forms of government, the question is how a politically integrative country such as China could raise administrative efficiency in the absence of a clear separation of politics and administration. This chapter examines how Chinese political officials utilised political meritocracy as a measure in personnel management to strike a balance between administrative rationality and political prerogatives. Chinese experiences show that China's officials have developed 'home-grown' solutions to deal with 'home-grown' problems—that remain pervasive in and particular to its political system.

Political meritocracy: Theory and reality

Meritocracy and political meritocracy

Alan Fox, an industrial sociologist, was the first scholar to use the word 'meritocracy'. To Fox, rather than something desirable, meritocracy is a social order which divides people into those who get the best and most of everything and those who get the poorest and the least (Fox 1956). Later, the British sociologist Michael Young described meritocracy, in his novel titled

The Rise of the Meritocracy (1958), as intelligence plus effort and used the word meritocracy to mock a society in which wealth and positions are determined by achievement on standardised intelligence tests (Young 1958). Today, the term ‘meritocracy’ has more positive connotations. In modern society, meritocracy is now generally to be understood as promoting the idea of a fair social system in which people can work hard, make best use of their talents and thus achieve social success (Littler 2018). In an ideal meritocracy, people continue to move up and down according to their level of performance and achievement.

Daniel Bell and Chengyang Li’s book, *The East Asian Challenge for Democracy* (2013), discussed the theories, history and practices of the idea of political meritocracy and examined arguments for building political regimes as meritocracies. Later, in 2015, Bell published *The China Model: Political Meritocracy and the Limits of Democracy* to further develop their ideas. In this book, political meritocracy is defined as a political system (or a regime type) in which political power is distributed in accordance with ones’ ability and virtue (Bell 2015:6). To Bell, political meritocracy is a good alternative to liberal democracy, which can also be used as a yardstick for evaluating China’s pertinent political system (Bell 2016).

In examining Bell’s ideas, political theorists began by making the connection between traditional Confucianism and political meritocracy as well as the relationship between political meritocracy (also known as Confucian meritocracy) and democracy. Focusing on the cultural origin or the nature of political meritocracy, these studies are largely thematic, academic or philosophical (Kim 2020).

Subscribers of political meritocracy, also referred here to as ‘Confucian meritocrats’, argued that political meritocracy is based on, or inspired by, Confucianism or Confucian values. Further, they believed that political meritocracy can be combined with and, indeed, complementary to democracy in some ways (Bai 2013; Chan 2013, 2014; Bell 2015). Gaining confidence in the desirability and feasibility of Confucian political meritocracy, they defended and argued for the superiority of political meritocracy over liberal democracy. However, these arguments met with strong criticisms. For instance, He and Warren (2020) contended that Confucian meritocrats did not offer a viable alternative to liberal democracy. In an ‘authoritarian meritocracy’ such as China, the authoritarian features of the political system invariably undermined merit and would finally lead to regime instability. Because of a lack of commitment to democracy, an

authoritarian regime like China has a strong tendency to use politically oppressive measures to suppress Chinese citizens. Political meritocracy in China ultimately may betray its original ideal (Mang 2020).

Inspired by Confucian meritocrats' proposition on political meritocracy, Chinese mainland scholars also joined the debate. Tang and Zhao (2016a, 2016b), for example, proposed 'neo-political meritocracy' to describe the modern transition of China's political system. To them, political meritocracy has inherited the Confucian tradition of meritocracy, and can aptly adhere to the basic rules and procedures of modern democracy, that is, responding to the wishes of the public while managing government efficiently. Some Chinese scholars did not support this notion of political meritocracy. Critics pointed out that political meritocracy is neither desirable—as it easily gives rise to the dominance of a particular group or person—nor feasible—as it fails to get rid of problems such as patronage and corruption (Liu 2015; Zhang 2017). Furthermore, with an undue emphasis on the importance of elite selection, political meritocratic theorists might overlook the role of society in state governance (Gao 2018).

Meritocratic ideas and practices in China

China has a long tradition of meritocracy with its root in Confucianism. Confucian thinkers thought highly of a 'holy man' (*shengren*) or a person of virtue (*xianren*). They asserted that everyone could acquire the nature and propriety of a 'holy man'. They attached greater importance to the virtue of 'elevating the worthy' (*shangxian*), reflecting the propensity towards evaluating talents and selecting the right leaders. As a way of empowering the holy man to practice the 'virtue of benevolence' (*renzheng*), they believed in their political ideal of 'ruling by virtue'. With such cultural heritage of political meritocracy, governors in ancient China initiated some meritocratic practices, such as 'abdication from the crown' (*shanrang*) (i.e. to transfer power based on merit rather than inheritance) in archaic times (around 2241 BCE–2074 BCE), an investigation and recommendation system (*chajuzhi*) created in the Western Han dynasty (202 BCE–9 CE) and an imperial examination system (*keju zhidu*) established during the Tang dynasty (618–907). In particular, the imperial examination system played an important role in creating opportunities for talents and increasing social mobility in imperial China (subject, of course, to the emperor's rule). These meritocratic ideas and practices had a profound effect on today's Chinese cadre personnel management.

Since the founding of the People's Republic of China (PRC) in 1949, the CCP has continuously sought to develop its own cadre personnel management system with 'Chinese characteristics'. In doing so, the CCP has managed to insert meritocratic principles into the criteria and methods of cadre selection. In the 1980s, Deng Xiaoping organised a symposium to promote the criteria for evaluating cadres who are both red (i.e. politically loyal) and expert (i.e. administratively competent) (*you hong you zhuan*). Subsequently, Deng later supplemented these criteria by adding the 'four standards' of cadre corps (*ganbu duiwu sihua fangzhen*), namely, being 'more revolutionized, better educated, professionally more competent and younger in age', to give substance to the stance of being politically loyal and being administratively competent. All these triggered a series of measures to reform the cadre and personnel system, including abolition of the life tenure system and establishment of a reserve party cadre system (*houbei ganbu zhidu*). In the 1990s, the CCP strived to reform the centralised and unified cadre management system by building a relatively independent state civil service, alongside the idea of separating the party from the government. In the 1990s, the party spearheaded open selection (*gongkai xuanba*) and internal competition for posting (*jingzheng shanggang*) to improve the method of cadre selection. The Party Central and the State Council officially established the principle of requiring all new recruits to pass the civil service examination (*fan jin bi kao*) in 2003 and reinstated these in the 2005 Civil Service Law (CSL) (State Council 2005). At the 2008 National Conference on Organizational Work, Hu Jintao stated that the cadre selection criteria are comprised of both virtue and ability, with virtue given a priority (*de cai jian bei, yi de wei xian*). In 2013, Xi Jinping further proposed that good cadres needed to have five standards: possessing firm belief (in the party's ideals), a desire to serve the people, diligence and pragmatism, bravery in relation to taking responsibility, and the ability to remain clean and uncorrupted.

Political meritocracy in today's Chinese cadre personnel management

Assessment, selection and appointment, and disciplinary inspection are three key components to enable us to assess how political meritocracy has fared in the Chinese cadre personnel management. This part of the chapter is going to investigate how the CCP has implemented political meritocracy across three aspects of cadre personnel management: cadre evaluation, cadre

selection and appointment, and cadre discipline and inspection. It shows how the CCP has applied political meritocracy to improve bureaucratic efficiency, given the presence of the centrality of the party.

Cadre evaluation

Evaluation is used by the party to manage cadres' behaviour and direct local cadres to accomplish the priorities set by the central government. The party highlights five dimensions in evaluating party and government-leading cadres: virtue (*de*), ability (*neng*), diligence (*qin*), achievement (*ji*) and integrity (*lian*). We use Article 8 of the *Regulations on the Assessment of Party and Government Leading Cadres* issued in April 2019 to examine specific indicators of the five dimensions and sort out both political and meritocratic ones (see Table 13.1) (Central Organization Department 2019a).

Table 13.1: Political and meritocratic indicators in the evaluation of party and government leading cadres.

Dimension of evaluation	Political indicators	Meritocratic indicators
Virtue	Firm political ideals and convictions, and loyalty to the party; compliance with the Party Constitution, political discipline and political rules (<i>zhengzhi guiju</i>); ideological and political allegiance	Null
Ability	Political ability to deal with emergencies and mass disturbances	Professional qualities and organisational and leadership skills to deal with emergencies and mass disturbances
Diligence	Promoting the spirit of revolution and struggle, adhering to 'Three Strictnesses, Three Honests' (<i>san yan san shi</i>); daring to assume responsibility; showing willingness to dedicate	Working hard and perseveringly
Achievement	Adhering to the correct view of political achievement; emphasising the effectiveness of party building in the evaluation of actual performance	Performing their duties; undertaking urgent and dangerous tasks; handling complex issues and coping with major challenges
Integrity	Assuming the political responsibility of 'one position, two responsibilities' (<i>yi gang shuang ze</i>); ² taking the initiative to both adhere to the spirit of and implement the 'Eight Point Code' and its detailed rules and regulations	Null

Notes:

1. 'Three strictnesses, three honests' was proposed by Xi on 9 March 2014. 'Three strictnesses' refers to 'being strict in morals, being strict in power, and being strict in disciplining oneself'. 'Three honests' refers to 'being honest in decisions, being honest in business, and being honest in behaviour'.
2. 'One position, two responsibilities' means that a leading cadre should undertake both their assigned job responsibility and the political responsibility of constructing party style and clean government (*dangfeng lianzheng jianshe*).

Source: Compiled by authors.

These indicators emphasise political standards in cadre evaluation. Table 13.1 shows that all indicators promoting the virtue and integrity are politically oriented. The party has also inserted political factors into all the other indicators. Under 'achievement', for example, the effectiveness of party building (*dangjian*) is set as a key indicator when assessing the actual performance of leading cadres (see also Article 8). In converting political requirements into performance indicators, the party can use the evaluation system as a baton to manage cadres' political performance (*zhengzhi biaoqian*).

Inserting political and ideological standards aside, the indicator system also aims to promote job-based performance (Gore 2016). As shown in Table 13.1, professional qualities, organisational and leadership skills, professional dedication, and job performance are the main meritocratic indicators in the evaluation of party and government-leading cadres. Furthermore, local party committees have developed more detailed performance indicators in connection with local conditions. In measuring a lower-level government's performance, the CCP has always converted governance goals into cadre evaluation indexes. In the early years of the PRC, the CCP used seniority in terms of revolutionary war experience as the main selection criterion. Consequently, political loyalty, usually measured by revolutionary seniority, was the main indicator to evaluate cadres at that time. After the opening-up of China, especially when Deng proposed that 'development is the only way out' (*fazhan cai shi ying daoli*) in the early 1990s, the capacity to promote economic development, mainly measured by GDP, has become a core indicator to assess cadres across the country. In the decades since opening-up, economic performance has become an important source of regime legitimacy (Zhao 2009). Since the beginning of the new century, China's leaders started to pay increasing attention to social development and stability as well as economic growth. Correspondingly, indicators such as social harmony and environmental protection have been inserted into the index system of cadre evaluation. In line with this

development, major performance tasks have become an important part of the performance contract signed between a local government and higher-up authorities. These performance goals are handed down level by level to lower governments (Edin 1998). In this way, the party can manage cadres' individual job performance on the one hand, and on the other also ensure that local leaders deliver what has been decided by those further up the hierarchy.

Cadre selection and appointment

Chinese cadre personnel management uses a rank-in-person system (also known as the rank classification system) in which every cadre is first assigned a rank (instead of a particular job) and attached to a pertinent party committee. In a nutshell, this type of system seeks chiefly to manage people but not to manage a job. Given this feature, cadre selection and appointment has always been central to the party's cadre work.

Since the 1950s, the CCP has adopted the principle of 'party controlling cadres', with the jurisdictional authority (*guanli quanxian*) of cadre personnel management as the primary mode of government control and oversight. In the early 1950s, the CCP established a nomenklatura system (generally refers to the lists of positions controlled by the respective party committees) to regulate authority over party-state 'principal leading cadres' and other relevant important personnel (Manion 1985; Burns 1994; Brødsgaard 2002; Chan 2004). Through the nomenklatura system, the party manages and controls the appointment, promotion, transfer and removal of practically all but the lowest-ranking officials. This system continues to operate and plays a significant role in maintaining the party's authority over cadres across all sectors and localities. At the same time, while holding a tight control over principal officials and key positions, the party has also opened the channel for 'talents' to enter the bureaucracy, strengthening expertise (Chen et al. 2015).

Upon issuing the *Provisional Regulations on State Civil Servants* in 1993, the State Council (1993) established the civil service examination system. The examinations, including written examinations and face-to-face interviews, help to assess candidates' level of knowledge, professional qualities and ability to express and communicate. Through this system, the party is also able to examine and investigate applicants' political records and family background, by conducting a qualification (*zige shencha*) and investigation

(*kaocha*) review. The civil service examination is only applicable, however, to non-leading positions at the lower level (i.e. mainly entry-level positions: see Article 21 of the 2005 CSL).

In addition, ‘open selection’, and ‘internal competition for posting’ have become important methods of cadre selection and appointment. Open selection is used to select leading cadres from the public, and internal competition for posting is an internal mechanism for selecting leading cadres within a department or system (*xitong*). Both measures adopt competition as a way of promoting meritocracy in cadre selection below a certain level. However, the scope of application of the two measures has been adjusted and confined more recently. Article 49 of the 2002 *Regulations on the Selection and Appointment of Party and Government Leading Cadres* shows that the two methods are used to select leading members or candidates of the party committees and government departments at the local level or in the internal departments of party and state organs (Central Organization Department 2002). In the revised regulations promulgated in 2014, however, the scope is applicable only to leading cadres below the county/divisional level (see Article 50) (Central Organization Department 2014). In the revised 2019 regulations, the scope of application of the two methods was further confined to deputy leading positions (see Article 15) (Central Organization Department 2019b). Article 15 of the regulations indeed resonates with Article 47 of the 2018 CSL to downplay the role of competitive hiring in cadre selection—promoting political cohesion is more important than developing an administratively competent bureaucracy. Though the change may signal a reversal or a fall back, competitive hiring has not been entirely abandoned.

Discipline inspection

Discipline inspection is another key measure to supervise and monitor cadres. Discipline inspection refers to the work in supervising party members and cadres, monitoring the implementation of party lines, principles, and policies, and promoting the construction of party style (*dangfeng jianshe*) (e.g. the establishment of an honest and clean government). In 2012, Xi Jinping gave an instruction of ‘exercising full and strict governance over the Party’ (*quanmian cong yan zhi dang*), and later in 2013, Xi Jinping gave further instruction to having the party strictly manage cadres (*cong yan zhi li*). All of these require party committees to strengthen discipline inspection work across the nation, localities and sectors.

Political requirements, including political ideology and political loyalty, are the primary components in the party's discipline inspection work, as stipulated in Article 17 of the 2016 *Regulations on Intraparty Supervision* (Central Committee of the Chinese Communist Party 2016). Likewise, Article 2 of the 2018 *Disciplinary Regulations* and Article 7 of the 2019 *Accountability Working Regulations* also make the inspection of political performance the most important task of disciplinary sanction and accountability (Central Committee of the Chinese Communist Party 2018, 2019).

To strengthen supervision over its cadres, the party has converted governance goals into intraparty rules (*dangnei fagui*). For example, Article 7 of the 2019 *Accountability Working Regulations*, party and state leading cadres should be held accountable if they perform poorly in management and supervision duties or issues involving the people's livelihood, poverty alleviation or environment protection. The party has further rolled out a list of 'work disciplines' (*gongzuo jilu*) to manage job performance (see Article 121 and 122 of the 2018 *Disciplinary Regulations*). In this case, the party organisations and leading cadres in charge will be disciplined for their failure to assume job responsibilities or accomplish the party's policy goals. Article 7 of the 2019 *Accountability Regulations* has incorporated requirements on political construction, political ideology and party building into the job responsibility system. Article 16 of the same regulations also establishes a 'lifelong accountability' to hold top and responsible officials accountable for failing to take proactive measures to enhance the party or address major issues (such as corruption) or for dereliction or negligence in matters with serious consequences, even if they have since exited the service in the normal course of events.

In cadre discipline inspection work, the party has now focused its attention on the 'key minorities' (*guanjian shaoshu*)—that is, all leading cadres at each level who hold key (i.e. top and responsible) positions at their respective level in the bureaucracy. The instruction is clearly stipulated in Article 17 of the 2016 *Regulations on Intraparty*. Article 5 of the 2019 *Accountability Working Regulations* makes the same provision. The idea is that holding the 'key minorities' or top group at each level would help better control the entire cadre workforce. The party has attempted to portray these 'key minorities' as role models for accomplishing the goals of both political construction and job performance.

Conclusion and discussion

Meritocracy is essential to modern bureaucracy. For a highly integrative state with no divide between politics and administration like China, the difficulty is how to carry out successfully meritocratic measures in a highly politicised bureaucracy. To what extent can administrative or meritocratic rationality be compatible with political prerogatives (Chan 2010)? Political meritocracy, as a policy tool to balance administrative rationality and political prerogatives, might provide some clues.

The CCP has applied the idea of political meritocracy to various aspects of the Chinese cadre personnel management. First, political standards are the primary set of components, and have been built into every important aspect of cadre personnel management. Second, albeit with limited scope of application, meritocratic rationality is essential to the operation of political meritocracy. While maintaining a degree of political control, the CCP has sought to use meritocratic measures in various aspects of its cadre personnel management. To push cadres to implement its policies, the party has converted political construction tasks into measurable performance indicators. The CCP has also written governance goals into intraparty regulations and used political discipline as the main tool to monitor cadres' job performance. Third, the 'key minorities' are always the focus of the party's cadre personnel management. Fourth, putting the idea of political meritocracy into operation is a dynamic and complicated process. The CCP has tried to institutionalise political meritocracy in various forms, including statutory laws and intraparty rules and regulations. To ensure that Chinese officials can faithfully respond to political lines and directives, the CCP has continuously adjusted the specific goals, indicators or methods with a view to embrace the stance of political meritocracy in cadre personnel management.

As an endeavour to balance administrative, meritocratic rationality and political prerogatives, political meritocracy helps to maintain a high degree of political cohesion. By stressing political standards in various aspects of cadre personnel management and highlighting the role of the 'key minorities', the CCP can make sure that those selected adhere to and carry out party lines and directives. In addition, in the process of applying the idea of political meritocracy, the CCP has strived to improve the quality and professional level of the cadre workforce. More and better-educated 'talents' with expertise and professional skills have been encouraged to join

the civil service. In a way, political meritocracy has been used by the party to enhance the quality of governance. Cadres at various levels are very concerned about and sensitive to the established targets because the CCP has connected evaluation results to their career prospects. Making the top-down evaluation a baton to manage administrative performance, the CCP uses political meritocracy to play an important part in enhancing the party-state's capacity for governing socio-economic affairs and meeting citizens' needs. Moreover, political meritocracy is also a pattern of internal accountability that requires cadres to be responsible. Cadres are responsible for both politics-based and job-based indicators. By means of full and strict supervision over cadres at various levels, the party can make sure that cadres are held responsible for the accomplishment of both established political tasks and performance goals. In this case, political meritocracy can be seen to be helpful both in improving bureaucratic responsibility and in ensuring regime legitimacy.

Contrary to previous studies on political meritocracy, this chapter shows that political meritocracy is a policy tool in active operation in China. Chinese experience shows that political integrity and administrative rationality can be achieved, though unevenly and with some tensions, by the same management design. Although some incompatibilities are apparent, their extent can be managed to a degree that the underlying values of political meritocracy can be accomplished, without some succeeding at the cost of others.

Without any electoral competition in place, Chinese bureaucracy is party-dominated and highly integrative. As a result, the party-state bureaucracy has encountered problems including lacking responsiveness and accountability to the public and constraining more open debate about policies and ideas. Moreover, because of the centrality of politics in China's political system, administrative rationality can easily be undermined by political patronage.

It is important to state that the combination (and tensions) of the different values incorporated into China's management design are a 'home-grown' problem. This problem is pervasive to and particular to China's highly integrated political system both across government and across society. The practical way to look for a solution must also be a home-grown one. The theory is that when a country makes a transformation, its reform goalposts and roadmaps are characteristically self-referential; that is, reflecting distinctly the national situation. Political meritocracy reflects an orientation in management design, suitable to China's party-state system and its history.

The theory provides an alternative way to understand how China has reconfigured the relationship between politics and administration to address its personnel management problems. China has a highly politicised bureaucracy in which politicians are simultaneously bureaucrats (Vogel 1970; Gore 2019). With a fusion of political and career appointees, Chinese cadre personnel system is seemingly a two-layer unified framework in which there now exist two distinct career paths—the political realm for political appointees, and an administrative realm for career appointees (Chan and Li 2007). In the political realm, the CCP has emphasised control over and through the ‘key minorities’. The CCP has issued many intraparty rules and regulations to ensure that the key minorities have earnestly adhered to the political lines and directives handed down by the CCP. All these represent an endeavour to manage party members. Although not all civil servants are party members, it is likely all principal and high-level civil servants are. As such, the CCP can exercise nomenklatura authority over all principal and high-level civil servants as a matter of exercising internal party power and authority. In the administrative realm, the CCP relies on the use of the statutory law (such as the CSL) to introduce more meritocratic measures to enhance administrative rationality. Meritocratic measures are mostly confined to the administrative realm and add predictability to management and enhance administrative capacities.

Chinese reform trajectories also illuminate that political meritocracy is quite different from Bell’s proposition of ‘China model’—democracy at the bottom, experimentation in the middle and political meritocracy at the top (Bell 2015:178). Since the CCP has exercised more merit-based management among the administrative realm (i.e. civil servants serving at the lower levels), Bell’s propositions do not reflect China’s reality. Bell does not mention the incompatibility issues and overlooks the efforts made by the CCP to address them through personnel management by both statutory law and internal rules and regulations.

A caveat must be made here. Since political meritocracy still operates in the presence of a strong party, some endogenous problems still emerge. A high concentration of power and authority in the party gives rise to the problem of political patronage, bureaucratism and abuse of power. There is a conventional understanding among Chinese scholars that Chinese cadre personnel management always focuses its attention and centres its efforts on recruiting and selecting personnel rather than managing a job. One interpretation is that the endeavour of political meritocracy approach can

certainly promote the meritocratic aspect in recruitment and selection of personnel, but it might not help in other aspects, for example in regard to cadre dismissal and career mobility.

The CCP has faced challenges in the development of political meritocracy. There are always trade-offs in management design. Placing too much emphasis on political requirements is likely to distort the career incentive of cadres and might fail to achieve a commensurate increase in effective management. Given the emphasis of heightened political control of the entire cadre workforce, taking place after the Eighteenth National Congress of the CCP under Xi Jinping, the party will need to remain vigilant against failing to balance administrative rationality and political prerogatives. Chinese reform cycles reveal swings in the balance between political control and administrative rationalism: the current emphasis is on party control, but new circumstances and opportunities may later revive the importance of managerial capacity and bureaucratic rationalism.

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14

Change and continuity in the civil service of Taiwan under democratisation: With Hong Kong as a benchmark for assessment

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Abstract

This chapter reviews change and continuity of Taiwan's civil service under democratisation since the 1990s, and makes use of Hong Kong's Western-style civil service as a benchmark to assess the impact of the development. This study shows how the legacy of Chinese tradition laid the foundation and shaped the development path of the civil service. The change and continuity is demonstrated by its evolution with constantly absorbing Western institutions and reform experiences before and after democratisation. The 1990s witnessed a climax of legalisation and institution building, strengthening of the original exam-based selection of civil servants while hybridising with the old Western tradition of public administration. The early twenty-first century witnessed the diffusion of the new tradition of Western public administration (new public management) into Taiwan,

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which had a significant impact on performance management. However, other reform initiatives for the civil service have hit stumbling blocks. Despite the setbacks, a comparative survey with Hong Kong's civil servants shows that Taiwan's civil service, driven by democratisation, outperforms Hong Kong's in professional autonomy and public responsiveness.

Keywords: civil service system; Taiwan; Hong Kong; professional autonomy; responsiveness.

Introduction

This chapter gives an account of the development of Taiwan's civil service system under democratisation since the 1990s. The 1990s witnessed the building of institutions as well as reforms to the civil service, developing it into a more legalised and protected (depoliticised) service. It further strengthened the exam-based selection of government workers. Further reforms continued in the early twenty-first century by adopting new public management (NPM)-style performance management approaches to enhance the quality of service and responsiveness of government agencies as well as the performance of their staff. At the same time, reform efforts faced setbacks in the attempts to set up a senior civil service, impose a forced distribution of performance ratings and adopt multiple assessment tools in the selection of civil servants. The above development reflects change and continuity of the civil service as an institution.

This study makes use of a comparative survey between Taiwan's and Hong Kong's civil services to illustrate the impact of these developments in Taiwan and to compare the relative position of the government workforce of a post-authoritarian democracy (Taiwan) with that of a postcolonial administrative state (Hong Kong). Hong Kong is used as a benchmark to measure Taiwan's civil service against Western-style modern bureaucracy. However, it is worth noting that the survey was conducted during Hong Kong's anti-extradition movement in 2019, a critical turning point of Hong Kong's politics that might have impinged on its original Western-style civil service. Thus, caution is warranted as our findings reflect an evolving de-Westernising situation in Hong Kong. However, that may help reveal the impact of democratisation of Taiwan at this point.

Background: Inheritance of the legacy of Chinese tradition and (mis)adaptation of Western elements to the tradition before democratisation

Before examining development from the 1990s, we first review the earlier background of Taiwan's civil service system. The island's civil service system was founded on the Kuomintang's (KMT, Nationalist) rule in Mainland China, as the Republic of China, in the 1930–1940s and then transplanted into Taiwan after World War II. As Cheung (2010) notes, it is Republican China and post-1949 Taiwan that inherited the legacy of China's administrative tradition, while Communist China took the Soviet model in 1949. This is especially true for the civil service system.

The main features of the Chinese bureaucratic tradition include: (1) a generalist-oriented rank-in-person mandarin system; (2) allowing promotion from the lowest grade/rank to the highest; (3) recruitment and selection of government officials through open and competitive examinations; (4) no demarcation of the civil service between central and local governments (Hwa 2001; So and Liao 2019). These basic institutional features further evolved in Republican China. As Sun Yat-sen, the founding father of the new republic, considered the Chinese examination system to be an institution which could remedy the defect of electoral democracy that was not based on merit and failed to guarantee the quality of government officials (Bill 2015), a separate 'examination power' was devised to check against the personnel authority exercised by the state's executive branch.

The Examination Yuan was set up in 1930 in Nanjing to realise Sun's idea. This new state organ mirrored an 'examination-appointment dual system' in the imperial era (So 2015). Within the Yuan, the Ministry of Rite and the Ministry of Personnel respectively took charge of examinations, and appointments of officials and other personnel administrative affairs. The former organised written tests for selection and supplied the latter with candidates for appointment. The latter assigned the entrants to various positions across the empire. It is a supply-driven job assignment system in which public managers of employing agencies are absent from the selection process (So 2015). Taiwan's Examination Yuan followed the same logic with two subsidiary agencies, the Examination Commission (reshuffled into the Ministry of Examination in 1948) and the Ministry

of Civil Service. The Examination Yuan is more powerful than public/civil service commissions in other countries, because its authority covers not only the selection of civil servants, but also public personnel policymaking and personnel management of all government agencies, and all examinations for professional and technical qualification.

The institutional evolution did not take place in isolation, without any influence from other countries. The classification system underwent three systemic overhauls in 1954, 1969 and 1987. In 1954, after the retreat of the KMT Government from Mainland China, the civil service system adopted a rank-in-person system with three ranks (elementary, junior and senior ranks), each of which contained three grades. The overhaul in 1969 tried to replace it with the US position classification system in order to promote scientific management and professionalisation. The position classification system divided job positions horizontally and scientifically into 159 class series and vertically into 14 position grades.

The 1969 experimental reform suffered from a backlash from government officials due to the rigidity of the classification system, which did not allow deployment as flexible as the original rank-in-person system. As a result, a new system that integrated the rank-in-person system with the position classification system into a unique system called 'joint rank-in-person and in-position' was launched in 1987 and has been functioning ever since (Hsu 2006).

The current system merged the 14 position grades into the traditional three-rank system. All career civil servants, except for several specialist services such as police, customs, judiciary and public transport, fit into a single 3-rank and 14-grade ranking system: grades 1 to 5 lie in the elementary rank; grades 6 to 9 lie in the junior rank, and grades 10 to 14 lie in the senior rank. Job positions are classified into numerous professional groups. The professional groups are broadly divided into two categories: administrative and technical. Similar professional groups form a professional cluster. A free transfer to any position of the same grade in the same professional group, or in various groups but in the same cluster, or related professional groups in diverse clusters, is allowed. This setting helps keep the generalist-oriented nature of the civil service.

The basic framework of the civil service system kept most features of the original Chinese tradition, but some Western elements were absorbed into the tradition with (mis)adaptation for a modernisation cause. Apart from

the position classification, there has been some demarcation of political officials and career officials, drawing from modern Western systems since the founding of the republic in 1912. However, in the KMT authoritarian regime, politics and administration were fused together. Career officials could be promoted to political positions and they were not politically neutral. The disciplinary mechanism for the civil service also combined a judicial element from the German system with the local tradition of ‘impeachment’² originally exercised by the censorate in imperial China (Weng 1990). All the above formed a unique but somewhat odd system.

Development under democratisation: Strengthening Taiwan’s own tradition while hybridising the old and new Western traditions

The transition to democracy from the end of the 1980s spurred across-the-board institutional reforms in the 1990s. Civil service reform was one of them and could be regarded as part of the political reforms introducing democracy. Foremost was diffracting the fused politics–administration structure: politics needed to be taken out of administration. The civil service system was thus further institutionalised and reformed to serve this purpose. Specifically, the civil service was to be depoliticised and legally protected from political interference. This also justified further consolidation of the original meritocratic civil service to enhance the legitimacy of the new democracy. To an extent, these changes replayed the development of a ‘protected service’ that occurred in Western countries in the mid-nineteenth century (Raadschelders and Rutgers 1996). At the same time, interestingly, the 1990s also experienced a global wave of public sector reforms with new public management (NPM) as its hallmark. Democratising Taiwan also drew on this ‘new’ Western tradition. The latter significantly influenced the orientation of the island’s reforms in the early twenty-first century.

2 ‘Impeachment’ in Western democracies is usually applied to top political leaders only, but the counterpart in imperial China was applied to all mandarins from the lowest to the highest grades. Even now, it is still applied to senior career officers in the government in Taiwan.

Reforms in the 1990s

Driven by this reform wave in the 1990s, the Examination Yuan spearheaded significant reforms and thus boosted its status. The most important was the enactment of the Civil Service Protection Act in 1996, by which a comprehensive mechanism and related procedures (copied from Germany) for protecting civil servants' status and various legal rights against administrative and political infringements were established.

Alongside the legislation, a new ministry-level agency, the Civil Service Protection and Training Commission, affiliated with the Examination Yuan, was established to enforce the new law. The new commission was also given responsibility for training and development of the civil service. This new establishment obviously expanded the jurisdiction of the Examination Yuan. To achieve depoliticisation, the Examination Yuan attempted to regulate the political activities of civil servants by the enactment of the Civil Service Administrative Neutrality Act (a Bill put forward in 1994, but only approved as late as 2009).

Meanwhile, the Examination Yuan further strengthened the reputation of civil service entrance examinations (CSEEs). 'Hiring by exam' has been locally regarded as the equivalent of 'hiring by merit' in the West. However, not all permanent staff in the government were recruited through the CSEEs. The Examination Yuan in the 1990s strived to close the gap to attain the ideal of exam-centred meritocracy (So 2015). From 1991, all new entrants of government technical staff, who had previously included anyone with relevant educational qualifications and relevant work experiences, had to be recruited through the CSEEs. From 1997 onwards, government agencies were no longer allowed to directly recruit any permanent 'government employees' who had not passed the CSEEs and had been allowed to be promoted to elementary-rank positions. From then on, new elementary-level CSEEs were organised to recruit grade-1 civil servants. So the tradition of centralised exam-centred meritocracy was not weakened but strengthened under democratisation. This also reversed the NPM trends of decentralisation, non-exam-based selection, managerial flexibility, and expansion of (performance-based) temporary/contract employment in place of tenured civil service in public human resources management (Lægread and Wise 2007; So 2015).

The 1990s witnessed a climax of legalisation and institution-building for Taiwan's civil service. During this process, the original Chinese features of the system remained intact and the exam-based selection process was further

strengthened. The institution-building was, to a certain extent, hybridised with the old tradition of Western public administration (depoliticisation and legal protection) to meet the demands of democratisation.

Reforms in the twenty-first century

NPM reform ideas had already diffused into East Asia in the 1990s. Taiwan absorbed some of them into its public sector reforms, aimed at democratisation. Reforms in the 1990s had already applied privatisation, deregulation, administrative downsizing and contracting out of public services (Cheung 2003). However, the NPM ideas did not trigger an NPM-style reform in the civil service, except for performance management.

Taiwan's initiative in performance management reform was not fully driven by the NPM movement, but the NPM ideas did redirect its purpose from 'enhancing implementation to improving bureaucratic responsiveness' (So 2020). The management reforms were not within the jurisdiction of the Examination Yuan but conducted by a ministry-level agency under the Executive Yuan (Taiwan's executive branch): the Research, Development and Evaluation Commission (reshuffled into the National Development Council in 2014).

The earliest NPM-related initiative was quality management, introduced in 1996. Frontline officials were required to adopt a customer-oriented approach, devise their own innovative way to deliver services and directly respond to the public. Subsequently, a series of government quality/service awards were organised to encourage government agencies to actively improve their services.

With the first accession to power of the Democratic Progressive Party in 2000, the government pursued more NPM-style reform initiatives. A result-oriented performance evaluation scheme was adopted to link evaluation to preset performance indicators. The evaluations became more quantitative, and reports and results were disclosed to the public. This laid down a foundation of 'accountability for performance' (So 2020).

Under the performance management reform and electoral democratisation, civil service has become a more challenging job, even though lifetime job security remains guaranteed. The new ruling party tried to ensure political responsiveness from career officials who had served the KMT for decades, in order to ensure their compliance with the elected government's new

democratic principles. However, trying to enhance responsive competence raises the risk of undermining neutral competence (Aberbach and Rockman 1994). The civil service has come under pressure of re-politicisation.

In addition, personnel reform efforts in the twenty-first century faced numerous setbacks. Many substantial reform initiatives by the Examination Yuan were blocked. The first was the amendment of the Civil Service Appraisal Act in 2010. This included an attempt to impose a forced distribution of ratings to dismiss poor performers in the government. This reform initiative faced an intense backlash from civil servants, as it is difficult to measure the performance of individual workers in the public sector. Civil servants were doubtful about the fairness of the appraisal. As a result, the legislature did not pass the bill.

The second was establishing a separate senior civil service (SCS). This has been a significant initiative in the West. After the establishment of the Senior Executive Service in the United States in 1978, this development diffused into other Western countries in the 1980s–90s. The purpose of the SCS was to enhance the competence and leadership of top civil servants; to overcome the fragmentation of ministries and create a corporate culture across ministries; and to make more flexible the recruitment and deployment of senior officials (Halligan 1996; OECD 2008). The idea of establishing a SCS in Taiwan was initiated as early as 2002; a formal proposal was formulated in 2010 by the Examination Yuan, which would take charge of training and selection of the SCS. However, the proposal was not supported by the Executive Yuan as the establishment would de facto deprive the executive branch of the appointment power of the SCS. The idea of opening-up SCS positions to public competition was also claimed to reduce the promotion opportunities for junior staff (So 2019). As a result, the proposal was only ever tabled and remains on the table today.

The Examination Yuan has attempted to improve the institution of the CSEEs but no significant change has been made. The exam-based selection, without any interview for the majority of applicants, has been criticised for a long time (Peng 2009, 2016). The huge number of examinees has provided the Ministry of Examination with a good excuse for not conducting interviews. Adopting multiple assessment tools, including aptitude tests and expanding the use of interviews, and establishing multiple stages of selection, were recommended to respectively improve the validity of the examinations and to lower the cost of interviews for a final selection (Peng 2009, 2016).

The Civil Servant Examination Act was amended in 2014 to allow the application of more assessment tools, and the law originally allowed multiple stages of selection. However, the ministry has not yet attempted to expand the use of these new tools: it seems more interested in improving the validity of existing written tests.

The civil service reforms in the twenty-first century hit many stumbling blocks. Although the Western performance movement has merged into the civil service at the organisational level, reforms to individual appraisal arrangements failed to take root. The new NPM tradition has proven to be more compatible with other aspects of administration (e.g. service delivery) than with the personnel system. Besides the issue of civil service selection and the SCS, expanding the employment of non-permanent contract staff to achieve greater flexibility is not on Taiwan's reform agenda. The use of non-civil-service staff is always publicly criticised as a way to sabotage exam-centred meritocracy. Any official attempt to legalise a non-civil-service personnel system has been controversial, because it was considered to encourage nepotism and patronage. This reflects how deep-seated the Chinese tradition of exam-based selection is.

Impacts of the development: A comparative survey with Hong Kong's civil servants

The above review reveals the persistence of many longstanding principles and conventions of Taiwan's civil service system, especially the exam-based selection. At the same time, the civil service has had to undergo a transformation to better serve the democratic system. It is supposed to become a nonpartisan (depoliticised) and responsive (re-politicised) workforce. What are the impacts on the civil service of the developments of the last 30 years? To resolve this question, this study makes use of a survey to compare and contrast the quality of recruitment and selection, and the work behaviour of civil servants in terms of job-environment fit, professional autonomy and public responsiveness. The survey targets street-level civil servants working respectively at district/township offices in Taiwan and at executive agencies in Hong Kong. The latter is taken as a point of reference to help expose the strengths and weaknesses of civil servants in Taiwan.

Why Hong Kong's civil service? Hong Kong is another Chinese society and has a long history of merit-based appointment of government officials, but it does not follow the abovementioned Chinese-style. Hong Kong applies

British-style selection, which relies less on written tests. The employing agencies can select their own staff in accordance with merit principles. This comparison can help measure the impacts of these two styles of civil service selection.

Hong Kong developed a strong bureaucratic state under British colonial rule, but has not evolved into a democracy after the handover to China. The civil service de facto governed the colony and self-claimed to be a nonpartisan steward of public interest so that the Hong Kong civil service enjoyed a high degree of professional autonomy (Cheung 2011). Nevertheless, since the rise of party politics in the 1990s and the handover in 1997, its civil service has been increasingly politicised, even though the civil service generally maintained a rule-driven Weberian tradition (Scott and Gong 2014). However, since the CY Leung administration (2012–2017), politicisation has reportedly trickled down to the lower-level civil service (Wong and Yuen 2020). It is therefore interesting to compare the impacts of ‘politicisation with democracy’ (Taiwan) and ‘politicisation without democracy’ (Hong Kong) upon street-level civil service.

Survey design

Procedures and samples

We conducted a mail survey of frontline civil servants to assess and compare meritocracy in the wake of politicisation and its effect on public service behaviour between Taiwan and Hong Kong. In Taiwan, the questionnaire was administered to civil servants in the line units of district/township offices. In November 2018, we pretested the questionnaire in a pilot study of 55 employees from four district offices across various geographical regions. After we ensured questions are clear and appropriate to the target population, we commenced the official survey in December 2018. To achieve geographic representativeness, civil servants from different regions of Taiwan (three district offices in North Taiwan; one in Central Taiwan; one in South Taiwan and one district office and one township office from East Taiwan) were invited to participate in the survey. Altogether, we distributed 451 copies of the questionnaire and collected 385 by March 2019. Of them, 383 were valid, yielding a response rate of 84.92 per cent.

In Hong Kong, we selected frontline staff who worked at executive agencies and performed line functions as the survey targets. To certify the validity of the questionnaire, we conducted a pilot survey in November 2019 using a sample of 31 civil servants. Pilot testing galvanised us to modify answer options for some demographic questions due to the contextual differences between Taiwan and Hong Kong, while the wording of all other items remained unchanged. Shortly after the pilot study, we surveyed frontline staff of five executive agencies, including Housing Department, Home Affairs Department, Social Welfare Department, Food and Environmental Hygiene Department, and Leisure and Cultural Services Department. The civil servants in these departments have more opportunities for direct contact with citizens. It is against this backdrop that they were selected. We obtained in total 6,263 junior officials' contact information via the Government Telephone Directory and sent out an invitation (with the online survey link included) by email. By the end of February 2020, we collected 226 valid responses, resulting in a response rate of 3.61 per cent. Nearly 40 per cent of the responses came from the Leisure and Cultural Services Department (90), whereas the Food and Environmental Hygiene Department produced the fewest responses (26). The low response rate is usual for online surveys, but this was the best means available to conduct such a survey during this politically sensitive time. Caution is thus warranted with all our generalisations surrounding this sample.

Measures

In this study, we measured the extent to which the employee selection system shapes the knowledge, skills, and abilities (KSAs) of civil servants, as a proxy of meritocracy, as well as professional autonomy and public responsiveness. To capture the effectiveness of civil service selection, we drew upon our conceptualisation of meritocracy, coupled with the theory of person–environment fit (Kristof-Brown et al. 2005), to develop relevant measures. In total, we employed four measures to operationalise the concept of employee selection effectiveness, including competencies, selection validity, person–organisation fit (P-O fit), and person–job fit (P-J fit). Briefly put, the first construct, competencies, was designed to reveal the degree of job-related KSAs civil servants developed before embarking on a public service career, while the second construct, selection validity, assessed the extent to which the civil service examination tested the required KSAs for the first public service job of respondents. As for the measures of P-O fit and P-J fit, each captured the compatibility between civil servants and their organisation or between them and their job. Sample items of these constructs include, for example,

‘Before taking the civil service examination, I had possessed related skills (e.g. writing skills and computer skills) required by my first job’, ‘I believe the current civil service examination is able to select qualified talents for my current job’, ‘My values match my current organization’s values and culture’, and ‘My skills and abilities fit the demands of my current job’.

We also developed instruments to measure professional autonomy and public responsiveness. Autonomy has long been studied by scholars of occupational psychology (Hackman and Oldham 1980). By definition, it is the freedom and discretion granted to employees to perform the tasks of their job. To fit the scope of the present study, however, we adopted and modified existing scales (e.g. the Breaugh’s Work Autonomy Scale (Breaugh 1985)), to capture the level of discretion allowed for civil servants to act independently when carrying out public service duties. A sample item is ‘I can freely choose how to complete my job tasks’. As far as the last construct is concerned, because there was no scale readily available to measure public responsiveness, we developed one from scratch. Five survey items were formed to assess how much respondents perceive their organisations as attentive and responsive to service recipients’ needs and demands. A sample item of this construct is ‘My organization treats every service recipient seriously’.

All of the abovementioned constructs were measured on a 5-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree, 5 = strongly agree). To further conduct a comparative test of the constructs, measurement of these latent variables should be equivalent across the Taiwan and Hong Kong samples. Accordingly, we performed multigroup confirmatory factor analysis to test measurement invariance. The test showed that Taiwan and Hong Kong samples are indeed configurally and metrically invariant. Although further testing failed to support scalar invariance, suffice it to say that all of the constructs and their underlying structures are equivalent across Taiwan and Hong Kong samples. Therefore, following on Jilke, Meuleman and Van de Walle (2015), we were able to make a meaningful comparison of constructs across the two groups.

In terms of the reliability, or internal consistency, of these constructs, we conducted reliability analysis. The values of Cronbach’s α show that most of the constructs had good and even high reliabilities, as most values were greater than the suggested cut-off point of .7 (Kline 2000). Among them, the P-J fit scale had relatively low reliability, $\alpha = .643$. However, given that it did not fall far from the generally accepted cut-off value and sometimes slightly lower values could be expected (Field 2018), we deemed the reliability of this construct acceptable.

Findings

Sample characteristics

Table 14.1 outlines the characteristics of the Taiwan and Hong Kong samples. By and large, the two groups of respondents have a lot in common. For instance, females slightly outnumber males (i.e. 220 versus 163 in Taiwan and 122 versus 104 in Hong Kong). Both could also be characterised as young and well-educated, as nearly 70 per cent or more are under 50 and roughly 80 per cent hold a bachelor's degree or higher. About half of them have worked in government for less than 10 years. Moreover, these young civil servants mainly engage in providing direct service to citizens, 68.4 per cent in Taiwan and 71.9 per cent in Hong Kong.

Table 14.1: Sample characteristics.

	Taiwan		Hong Kong	
	Total	Frequency (Percentage)	Total	Frequency (Percentage)
Gender	383	Male: 163 (42.6%) Female: 220 (57.4%)	226	Male: 104 (46.0%) Female: 122 (54.0%)
Age	370	20–29: 52 (14.1%) 30–39: 118 (31.9%) 40–49: 84 (22.7%) 50–59: 97 (26.2%) 60 and above: 19 (5.1%)	224	20–29: 22 (9.8%) 30–39: 89 (39.7%) 40–49: 65 (29.0%) 50–59: 48 (21.4%)
Education	381	High school: 16 (4.2%) College: 60 (15.7%) Bachelor's: 243 (63.8%) Master's: 62 (16.3%)	224	Lower than high school: 1 (0.45%) High school: 9 (4.0%) Associate: 30 (13.4%) Bachelor's: 114 (50.9%) Master's: 69 (30.8%) Doctoral: 1 (0.45%)
Tenure	380	Less than 1 year: 24 (6.3%) 1–9 years: 176 (46.3%) 10–19 years: 71 (18.7%) 20–29 years: 96 (25.3%) 30 years and above: 13 (3.4%)	224	Less than 1 year: 7 (3.13%) 1–9 years: 100 (44.64%) 10–19 years: 50 (22.32%) 20–29 years: 41 (18.3%) 30 years and above: 26 (11.61%)
Job nature	377	Direct service: 258 (68.4%) Internal service: 119 (31.6%)	224	Direct service: 161 (71.9%) Internal service: 63 (28.1%)

Source: Authors' summary of survey results.

Analytical results

This study aims to compare meritocracy in the wake of politicisation and its effect on professional autonomy and public responsiveness between Taiwan and Hong Kong frontline civil servants. Before solving the puzzle of meritocracy combined with politicisation, it is important to compare the means of study variables between the two samples. As mentioned above, the constructs were considered reliable. Thus, we first computed the mean score for each construct and then obtained the sample mean by averaging the scores of the respective respondents. These sample means are displayed in Table 14.2.

Table 14.2: Mean comparisons.

Variable	Sample	N	Mean	Std. Deviation	t
Competencies	Taiwan	379	3.116	.866	-6.302**
	Hong Kong	226	3.571	.846	
Selection validity	Taiwan	377	3.018	.857	-6.095**
	Hong Kong	226	3.457	.854	
P-O fit	Taiwan	379	3.346	.684	2.982**
	Hong Kong	226	3.150	.830	
P-J fit	Taiwan	380	3.635	.644	-7.135**
	Hong Kong	226	4.027	.668	
Professional autonomy	Taiwan	381	3.620	.669	5.133**
	Hong Kong	226	3.277	.864	
Public responsiveness	Taiwan	381	3.966	.636	2.098*
	Hong Kong	226	3.834	.811	

Note: * less than .05; ** less than .01.

Source: Authors' summary of survey results.

All things considered, the Hong Kong sample shows a higher degree of meritocracy, compared to Taiwan, as it outscores in areas of competencies (3.571 versus 3.116), selection validity (3.457 versus 3.018), and P-J fit (4.027 versus 3.635). These mean differences are all statistically discernible at $\alpha = .05$ level. By contrast, Taiwan has a marginal but statistically significant lead over Hong Kong in the category of P-O fit ($t = 2.982$, $p = .003$), suggesting that, compared to Hong Kong respondents, those in Taiwan tend to experience a greater degree of compatibility between themselves and their organisation, because their personal values align with organisational values and culture. As far as professional autonomy and public responsiveness

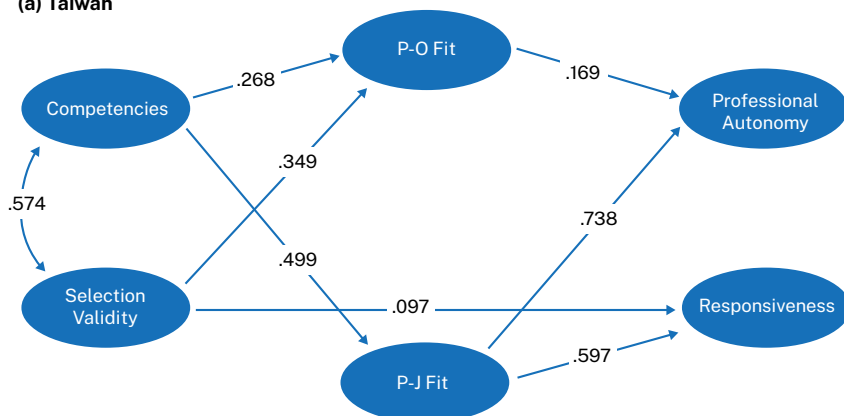
are concerned, Taiwanese respondents also have the edge over their Hong Kong counterparts. They score on average 3.620 in the scale of professional autonomy, compared to 3.277 for Hong Kong respondents. In terms of the level of public responsiveness, the Taiwan sample takes a slight lead, 3.966 versus 3.834, though Hong Kongers do not fall too much behind. These differences are statistically significant at $\alpha = .05$ level.

To test the effect of meritocracy on professional autonomy and public responsiveness, we performed structural equation modelling (SEM). SEM, instead of ordinary least squares (OLS) regression, was used because we intended to examine if there is a complex relationship, such as mediation, that links the study variables. It is widely believed that SEM can better test and visualise mediation than OLS (Kline 2015). Here, we would like to make clear that, because there are no good accounts in existing literature about how these variables may influence each other, our SEM is exploratory in nature. We have tested different models until reaching an acceptable model fit (i.e. $\chi^2(df = 402) = 1032.791, p < .001, \chi^2/df = 2.569, CFI = .917, RMSEA = .051$).

Figure 14.1 summarises the noteworthy results of multi-group SEM, a comparison between Taiwan and Hong Kong samples. Numbers shown are standardised coefficients, which enables us to compare the two groups. All of the paths we have identified between variables are statistically significant at $\alpha = .05$ level, as insignificant paths have been discarded. Overall, the two diagrams, (a) and (b), reveal that Taiwan's and Hong Kong's samples share similarities, particularly the path structure, as well as noticeable differences.

In terms of the relationship among the variables related to meritocracy, Taiwan's and Hong Kong's samples are more alike than unlike. Competencies have a direct, positive relationship with P-O fit and P-J fit, whereas selection validity increases the perception of P-O fit but not P-J fit. The standardised coefficients for these paths are similar between the two groups. However, when it comes to the effect of meritocracy on professional autonomy and public responsiveness, the differences between our samples start to surface. Comparing Taiwan with Hong Kong, the positive effect of P-O fit on professional autonomy is apparently weaker ($\beta_{\text{Taiwan}} = .169$ versus $\beta_{\text{Hong Kong}} = .612$), and that of selection validity on public responsiveness is especially marginal ($\beta_{\text{Taiwan}} = .097$ versus $\beta_{\text{Hong Kong}} = .295$). In contrast, the variable P-J fit exerts a stronger positive effect on both professional autonomy ($\beta_{\text{Taiwan}} = .738$ versus $\beta_{\text{Hong Kong}} = .334$) and public responsiveness ($\beta_{\text{Taiwan}} = .597$ versus $\beta_{\text{Hong Kong}} = .386$) among Taiwanese than Hong Kong respondents.

(a) Taiwan



(b) Hong Kong

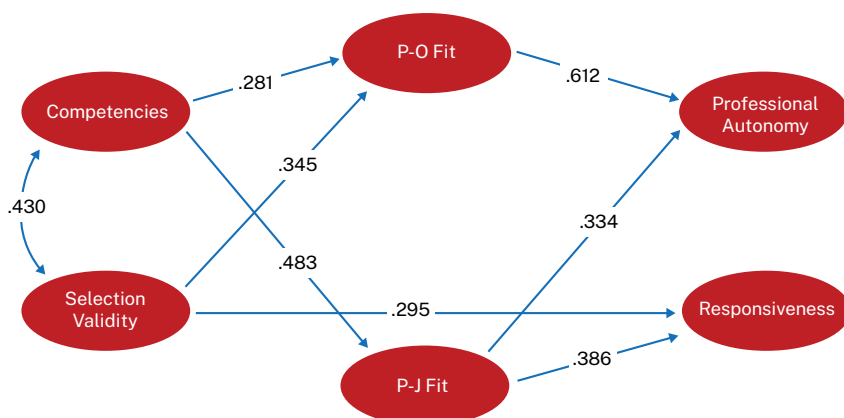


Figure 14.1: Results of SEM.

Source: Authors' summary of SEM results.

Tables 14.3 and 14.4 present the decomposition of the standardised effects of meritocracy on professional autonomy and public responsiveness. Through direct and/or indirect paths, the four meritocracy-related variables, namely competencies, selection validity, P-O fit and P-J fit, all exert a positive effect on professional autonomy. However, if we look more closely, the effect of P-J fit outweighs that of the other three variables for our Taiwan sample, whereas P-O fit is the predominant predictor in the Hong Kong sample. As for public responsiveness, both Taiwan and Hong Kong data show P-J fit is the most influential factor. Moreover, P-O fit is the lone non-factor among the four predictors.

Table 14.3: Standardised effects of meritocracy on professional autonomy.

	Sample	Direct effect	Indirect effect	Total effect
Competencies	Taiwan	.000	.413	.413
	Hong Kong	.000	.333	.333
Selection validity	Taiwan	.000	.059	.059
	Hong Kong	.000	.211	.211
P-O fit	Taiwan	.169	.000	.169
	Hong Kong	.612	.000	.612
P-J fit	Taiwan	.738	.000	.738
	Hong Kong	.334	.000	.334

Source: Authors' summary, based on survey results.

Table 14.4: Standardised effects of meritocracy on public responsiveness.

	Sample	Direct effect	Indirect effect	Total effect
Competencies	Taiwan	.000	.298	.298
	Hong Kong	.000	.186	.186
Selection validity	Taiwan	.097	.000	.097
	Hong Kong	.295	.000	.295
P-O fit	Taiwan	.000	.000	.000
	Hong Kong	.000	.000	.000
P-J fit	Taiwan	.597	.000	.597
	Hong Kong	.386	.000	.386

Source: Authors' summary, based on survey results.

Discussion and conclusion

This comparative survey might help to uncover the pluses and minuses of the exam-based selection of civil servants in Taiwan. First and foremost, Taiwanese respondents, compared to their Hong Kong counterparts, were conscious that they were not very competent when they assumed their assigned first jobs. They also reported that the selection mechanism was less able to test the job-related KSAs. The supply-driven job assignment system may exacerbate this situation.

Although the free transfer of jobs after recruitment may mitigate job mismatching, not all entrants have opportunities to rematch themselves to a new job or profession. Moreover, the degree of professionalisation under

the free transfer mechanism may be compromised. That accounts for why P-J fit is significantly lower for Taiwan's samples. On the other hand, the significantly higher P-O fit of the Taiwan sample may reflect the effect of a flexible internal labour market in which civil servants are better able to select a workplace through a job transfer. In contrast, the Hong Kong counterparts are only allowed to select a profession during the entry stage of their career, but their workplaces are centrally assigned and subsequent job transfers are difficult. These findings substantiate the notion that Taiwan preserves its generalist-oriented tradition of the civil service at the expense of professionalisation in recruitment/selection and career advancement.

Surprisingly, our analysis also reveals a significantly higher degree of professional autonomy among Taiwanese than Hong Kong respondents. It is possibly caused by the timing of the survey—conducted during Hong Kong's anti-extradition movement in 2019. Alongside the trickle-down effect of politicisation since the CY Leung administration, the professional autonomy of street-level civil servants in Hong Kong may have suffered a drastic decline.

Another notable finding is that P-J fit in the Taiwan sample seems to better predict professional autonomy, while P-O fit is a more predominant predictor in the Hong Kong sample. That means, despite P-J fit itself being relatively lower in Taiwan, it is actually a critical factor in determining the degree of professional autonomy among Taiwanese respondents. In other words, for those Taiwanese respondents who are better equipped to assume job responsibilities, they will be allowed to have more control over their work. However, P-O fit is more critical for Hong Kong's civil servants, probably because of the abovementioned politicisation. The lower professional autonomy in Hong Kong may reflect in part politicisation disrupting organisational harmony and generating some distrust between managers and junior officials. Only those who pledge loyalty to the organisation can exercise more discretion and independent judgment. Therefore, a more substantial nexus between P-O fit and professional autonomy is more likely to occur in Hong Kong than Taiwan.

If the account of differences in professional autonomy is somewhat complicated, the basis for a higher degree of public responsiveness in the Taiwan sample is crystal clear. Democratisation should be credited for it. The variables concerning the selection mechanism (competencies and

selection validity) are weak at predicting public responsiveness. But the P-J fit is sharply more significant than other variables. An adequate level of job fitness may sway the degree of public responsiveness.

In conclusion, Taiwan's civil service has been evolving under a persistent tradition since the founding of the system. Despite absorbing some modern settings from the West, the recent waves of reforms have not yet touched the foundation of the institution, especially exam-based selection. The personnel system looks stable and has undergone no significant change, but some managerial reforms (including performance management reform) have spurred changes to service delivery and quality. The performance of the civil service, driven by democratisation, is improving. 'Politicisation with democracy' exerts more positive than negative influences upon the civil service.

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15

Australian Public Service capability

Andrew Podger and John Halligan

Abstract

Despite repeated concerns expressed by major reviews about the capability of the Australian Public Service (APS), little action has so far been taken to strengthen capability or to rebuild its standing. Broad trends in APS employment over the last four decades may suggest a strengthening of the education and diversity of APS employees, but overall capability has been adversely affected by some of the themes of public sector development in Anglosphere countries over the last 40 years, particularly politicisation and externalisation. Evidence from reviews point to weaknesses from ‘hollowing out’ in areas such as strategic policy advising, human resource management capability and financial, performance and risk management, and also to the need for more effort to improve digital capacity.

While some action has been taken to address these concerns, more fundamental reform is needed to address system-level capability and the standing of the APS as an institution. Recent governments have rejected the need for such reform but early signs suggest that the Albanese Government, elected in May 2022, may finally consider such reform seriously.

Keywords: Australian Public Service; policy and management capabilities; politicisation; externalisation; system level capability; public service as an institution.

Introduction

Concerns about the capability of the Australian Public Service (APS) go back more than a decade. They were highlighted, for example, in the 2009 Moran Review (AGRAGA 2010) which, while concluding that the APS was ‘not broken’, identified weaknesses in particular capabilities including strategic policy advising and human resources management, highlighted the importance of strengthening capacity to deliver integrated citizens-centred services and recommended governance changes to strengthen the APS as an institution and to promote systematic reviews of capability.

This assessment reflected concerns expressed by some academic observers over the previous two decades about the risk of a ‘hollowing out’ of public sector expertise as a result of the public sector reforms of the 1980s and 1990s (e.g. Head 2015). There was no suggestion by Moran, however, of the need for any fundamental shift in reform directions: rather, the message was of the need for some modification and reinvestment, and also for some rebalancing to strengthen the public service as an institution and its degree of independence corresponding to its values of political neutrality, impartiality and professionalism, as well as for increased investment in specific capabilities.

The 2019 Thodey Review (IRAPS 2019) addressed similar themes, including concern about underinvestment in people and digital capacity, the importance of a whole-of-APS approach and its strategic leadership, and of more citizens-centred and integrated services. It also highlighted the need to promote understanding of the constitutional role of the APS alongside the executive and the parliament. The then government’s response to the Thodey Review (Commonwealth of Australia 2019) endorsed much of the suggested approach but rejected measures that might increase the standing and independence of the APS as an institution by constraining control by the political executive or that would reduce its dependence on external consultants and contractors (Podger 2019b).

Australia’s experience in handling the COVID-19 pandemic has highlighted the importance of public service expertise and of effective coordination across the APS and across jurisdictions. There was an increase in public trust in the public service and much more positive attitudes towards the APS by the then political executive, including deference to its professional (independent) expertise (Morrison 2020; Goldfinch et al. 2021). Subsequent actions suggested, however, that this was not a ‘new normal’ and that more

sustained effort to enhance APS capability and standing as an institution was still needed. The new Albanese Government, elected in May 2022, has promised action to do so (Burton 2022; Gallagher 2022) but a clear reform agenda has yet to be identified and acted upon.

Background

Looking over the whole period from the early 1980s, it is evident that the public sector in Australia has undergone quite radical restructuring. The APS has been particularly affected. The changes reflect in part the reforms of the 1980s and 1990s, but also the impact of technology. Public sector employment as a whole fell in the period to 2000, and Commonwealth Government employment fell even further and for longer, while overall employment in Australia grew steadily (Figure 15.1). There has been growth in public sector employment outside of the Commonwealth over the last two decades but not as fast as overall employment; Commonwealth Government employment has not increased much at all.

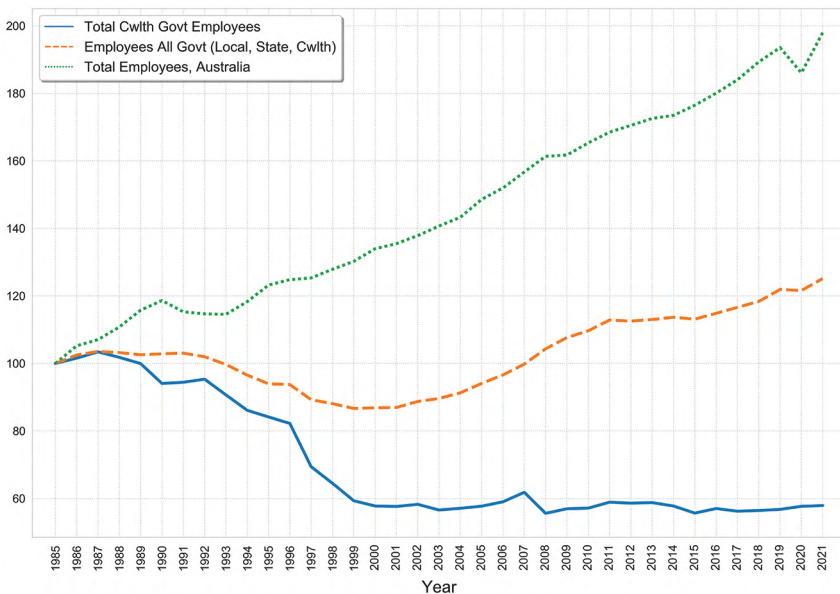


Figure 15.1: Australian employment trends.

Source: ABS (2020).

These reductions in the public sector's share of employment do not reflect any contraction in the overall role of government in Australia, as government spending (leaving aside the COVID-affected 2020) remains around 35 per cent of GDP; Commonwealth Government spending remains around 25 per cent of GDP. But far greater use has been made of the private sector and the community sector to deliver public services and provide advice, and many previously commercial-type services run by government have been privatised and/or subject to market competition.

The capabilities within the public sector have changed significantly, driven by technology as much as by the contracting out of many support functions. This is illustrated by the dramatic changes in the classification profile of the APS (Table 15.1). The lowest levels now comprise around 5 per cent of the service whereas in 1982 they comprised over 50 per cent. The APS is now an essentially graduate workforce and the bulk of the employees are in upper middle levels. There has also been some growth at more senior levels.

Table 15.1: APS classification profiles, 1980–2020.

Classification level	1982	1992	2002	2012	2022
APS 1–2 (or below)	54.9%	38.1%	12%	6.2%	5.1%
APS 3–4	18.4%	24.6%	39%	32.5%	27.7%
APS 5–6	18.9%	23.2%	29.7%	33.7%	36.7%
Executive levels	6.8%	12.7%	18%	25.8%	28.6%
Senior executives	1%	1.4%	1.4%	1.7%	1.9%

Note: Due to rounding, columns may not sum to 100%.

Source: APSC (2022) and author calculations.¹

The social profile of the APS has also changed significantly (Figure 15.2). In part, this reflects the success of equal opportunity efforts that have almost certainly improved the use of talent in the APS. Women now comprise a majority of the APS, and their share of even the most senior positions is now over 50 per cent (Figure 15.3). There have also been improvements in Indigenous employment and employment of people from non-English speaking backgrounds (though employment of people with disabilities remains a particular challenge).

¹ The author (Andrew Podger) used more careful mapping of historic classifications than previously (Podger 2017). Assistance from David Judge from the Australian Public Service Commission is greatly appreciated.

15. AUSTRALIAN PUBLIC SERVICE CAPABILITY

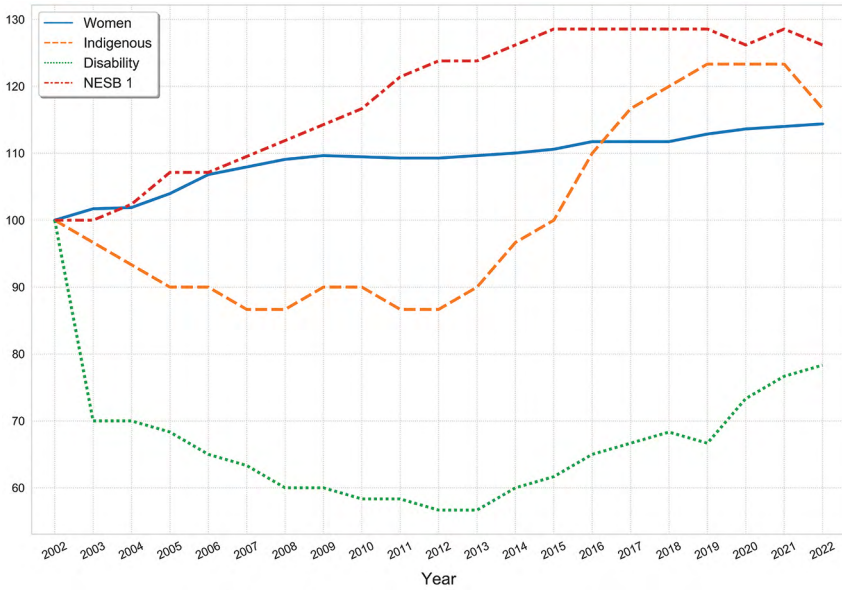


Figure 15.2: APS diversity trends, 2001–22.

Source: APSC (2022).

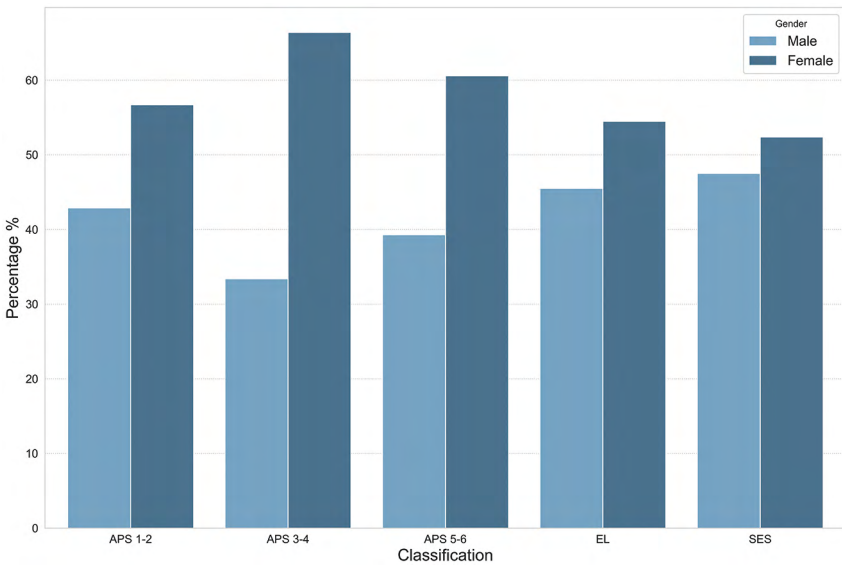


Figure 15.3: APS classification profile by gender, 2022.

Source: APSC (2022).

At face value, these trends may suggest improved capability: improvements in the average skill level of APS employees, better use of technology, greater willingness to draw on external expertise and increased efficiency by opening up APS activities to competition. Indeed, international comparisons reported by both the Moran and Thodey reviews (IRAPS 2019:48) concluded that the APS remained among the best civil services internationally.

More careful analysis, however, suggests a more restrained view, in particular questioning whether some major reform themes of the last four decades have been taken too far, undermining the role and capability of the APS as an institution and reducing its capacity in key areas of responsibility.

Major themes in Australian public sector development from the 1980s

Three major themes in the development of the public service in Australia and other Anglophone countries (UK, Canada and New Zealand) over the last four decades have been: politicisation, managerialism and externalisation (Craft and Halligan 2020; Halligan 2020). They all have significant implications for the capability of the public service.

Politicisation may be defined as the expansion of the political sphere within the executive branch. Political oversight of the public service is a critical aspect of democratic government, but Westminster principles (a merit-based, professional and neutral public service) require a degree of independence in order to serve the public impartially and efficiently. Underlying politicisation is the assertion of increased political authority to drive implementation of government policies and to ensure politically desirable results. Five components are apparent: redefining the political–bureaucratic relationship and roles, the appointment process for senior public servants, reasserting the centre and executive authority, the extensive use of political advisers, and driving political control for results and performance. The extent of politicisation is evident in many respects, although much is informal and opaque. The result has been that political actors have permeated much more of the public management system than in the past.

The impact of politicisation is reflected in many dimensions of the public management system: for example, coordination is more political, communications are more closely controlled, and performance objectives and targets are determined by ministers. With the political executive taking

much more direct control in the 2010s even ‘government on demand’ has emerged. Under the traditional system, senior public servants could usually constrain more extreme and purely partisan government proposals; under twenty-first century governments to date, public service policy advice is more likely not to be sought (or to be ignored). Such policy advice may be discouraged by ministers, and senior public servants may withhold advice with public interest implications in view of possible career repercussions.

The hallmark of public management reform has been the strong commitment to the *managerialist approach* that largely supplanted the traditional bureaucratic model. The components of managerialism included: decentralisation to departments and managers, improved management processes and associated capabilities, an emphasis on performance and results, continuous management of change and promoting flexibility in management.

The managerialist agenda has gone through various stages: the so-called new public management reforms of the 1980s and 1990s which emphasised devolution, ‘management for results’ and the use of market-type approaches including contracting out and privatisation; the shift towards the so-called new public governance in the 2000s which modified devolution to give more weight to whole-of-government responses to complex issues and to promote more integrated services, emphasising collaboration as well as competition; and more recent developments which have highlighted the importance of new technology to deliver services and to provide advice with increased emphasis on ‘innovation’, ‘agility’ and change management.

Several consequences of managerialism are of relevance here: first the erosion of internal policy capability over time. The second is that the flexibilities introduced led to new constraints (internal barriers, centralisation, multilayered control, and regulation). The new forms of regulation often expanded rather than reduced controls. The third is how risk-averse politicians generate excessive regulation and more generally bureaucratisation despite the rhetoric of managerialism: heightened politicisation begets bureaucratisation.

Externalisation is the third trend. There is a greater array of available external alternatives to the public service in policy advising and service delivery that governments can utilise; governments can also exercise their own preferences over the types of externals they use. Australia has chosen more regular and pronounced use of consultants while others have increased the role of think tanks. A comparatively active think tank and consultancy community

has further heightened externalisation, not only providing contestability and advisory sources from outside of government, but also establishing linkages to parties as well as to specific policy issues, now influencing public administration in ways not seen before. Australia's think tank community has evolved to become more competitive, but it is Australia's enduring reliance on private sector consultants for policy work and managerial advice that is most striking (Craft and Halligan 2020).

Of the Anglophone countries, Australia arguably has had the heaviest reliance on consultants for advisory work. The evolving state of Australian public administration suggests that consultants have become entrenched features and that a strong consultancy presence is linked to the challenges of public service capability. One detailed empirical analysis found that spending on consultants in 2017 was 5.5 times higher than it was during the 1995–96 period (van den Berg et al. 2019).

There is evidence of improvements in efficiency over the early reform period (Productivity Commission 2005, 2006) and there remains wide political and bureaucratic support to maintain the broad management framework introduced. But aspects of the reform agenda began to be questioned two decades ago and increasingly in more recent years.

Recent assessments of APS capability

As discussed further below, there are several conceptions of capability depending on whether the focus is at the macro level—the public service as a whole and as an institution—or on specific dimensions of capability such as policy advising and program management, or different aspects of these such as financial or human resources management, or particular specialist functions or areas of expertise such as health or defence.

Over the last decade there have been a number of different reviews of varying quality that have addressed APS capability either directly or indirectly, including:

- The (Moran) Review of Australian Government Administration led by the secretary of the Department of Prime Minister and Cabinet (AGRAGA 2010);
- The Commonwealth Financial Accountability Review (CFAR) conducted by the Department of Finance between 2011 and 2013 (DFD 2012a, 2012b);

- Capability reviews of individual departments and major agencies, coordinated by the APS Commission between 2011 and 2015 (APSC 2014);
- The (Alexander/Thodey) Review of the Implementation of the Public Governance, Performance and Accountability (PGPA) Act (Alexander and Thodey 2018);
- The (Thodey) Independent Review of the Australian Public Service (IRAPS 2019);
- The Senate Inquiry into APS capability (Senate Finance and Public Administration References Committee 2021).

As mentioned, the Moran Review concluded that the APS was ‘not broken’ but identified weaknesses in both specific fields and at the macro level. The specific capabilities identified as requiring more attention include strategic policy advising and human resource management (HRM). Moran also recommended a program of more detailed capability reviews of individual departments and agencies assessing each one’s specific capabilities. It also called for the strengthening of APS governance arrangements with a view to reaffirming its professional, nonpartisan and impartial role and associated degree of independence from the political executive.

Subsequently, capability reviews were conducted between 2011 and 2015 of all departments and most major agencies. These drew on a methodology developed in the UK and were in the form of learning exercises rather than independent audits (Harmer and Podger 2013). They revealed differences in capabilities across the APS including some strengths, while also confirming common weaknesses in strategic policy advising and HRM, including leadership and workforce planning (APSC 2014).

CFAR identified problems with having different financial management legislation for different organisations and continued weaknesses in performance management, evaluation and performance reporting and in risk management; it also revealed mixed efforts in corporate planning and capability development. Subsequently the *Public Governance, Performance and Accountability Act 2013* (Cth) (the PGPA Act) was passed to address the concerns identified by CFAR.

The Alexander/Thodey Review (2018) revealed continued mixed quality of corporate planning and performance reporting against both performance targets and corporate plan strategies, and also the widespread existence of risk-averse cultures and failure to apply firm risk management.

The Thodey Review (IRAPS 2019) concluded that, while the APS remains among the best civil services in the world, it continues to experience weaknesses in capabilities including strategic policy advising and HRM, and it needs to invest much more heavily in technology and to adapt to a rapidly changing environment to ensure better and more efficient delivery of public services. The review also raised concerns about the capability of the APS as an institution, calling for further strengthening of APS governance including measures that would help to clarify its role and relationship with the executive and the parliament by giving more weight, for example, to merit-based senior appointments.

The Senate Committee Inquiry's report lent weight to the Thodey Review's call for strengthening of the capability of the APS as an institution and a reduction in reliance on external consultants, contractors and labour hire.

In summary, the various reviews over the last decade reveal continuing weaknesses in a number of specific capabilities as well as at the macro level, despite confirming that its high reputation internationally is generally deserved. These concerns are summarised below.

Strategic policy advising capability

Policy capability has been identified in the twenty-first century as an ailing field in Anglophone countries (Halligan 2020). While public service policy advising continued to play a major role in Australia in the 1980s and 1990s, it seems subsequently to have been relegated, not just because of the priority given to management and implementation, but also because of increased externalisation and politicisation (Craft and Halligan 2020). Senior executives and department heads were pushed to manage more and their near monopoly role within the advisory system was disbanded as political executives became more assertive.

The most telling result from the capability reviews was the passive approach to policy overall, which was reflected in the relative lack of policy advocacy and leadership (Halligan 2020). Departments' policy capability ranged from well-developed to *laissez faire*, but departments were generally weak on six dimensions: policy development, strategy, research and analysis, policy implementation, stakeholder engagement and evaluation. Departments were reactive and disinclined to be forward-looking, which was attributed to day-to-day pressures and issues, a culture of problem-solving and a prevalence of tactical considerations. There were substantial variations

in departments' ability to offer choices, ground advice in evidence, draw on effective consultation internally and externally, and be forward-looking (Halligan 2020).

In summary, most departments either lacked a strategic focus or made inadequate provision for it or simply neglected it in practice. Strategic policy was often ad hoc and siloed.

More recent evidence (Tilley 2019; Bray et al. 2020), including from the then prime minister's statements (Morrison 2019), suggest that ministerial demand for policy advice had become secondary to the requirement to implement—quickly, efficiently and effectively—the policies developed by the political executive and that there has been little ministerial support for evaluation (Commonwealth of Australia 2019). The reduction in demand for policy advice also contributed to the apparent decline in policy capability.

Indeed, a new fashion for policy first and development of evidence later ('policy-based evidence' rather than 'evidence-based policy') had become more prevalent (Banks 2018).

HRM capability

Human resource management has long been a poor cousin to other forms of management and a loser under budgetary cutbacks.

Common concerns about HRM capacity relate to the lack of adequate APS-wide workforce planning and professional and skills development and training, as well as to the limited capacity in most APS agencies to pursue workforce planning and staff development. The capability reviews also found that, while 76 per cent of agencies were 'well placed' (or better) in terms of motivating people, 71 per cent were ranked as a 'development area' (or worse) for developing people. 'Staff performance management' also ranked poorly in the assessments with three-quarters of reviews rating agencies below the required level (APSC 2013:215). Surveys of employees indicated low satisfaction with senior leaders as a continuing trend.

These APS-wide weaknesses have been exacerbated by devolution of pay and conditions leading to wide variations in remuneration, which is inhibiting mobility and causing serious problems whenever agencies are restructured and staff from different organisations with different pay regimes are merged together. Investment in training and development is lower than in comparable areas of the private sector, and insufficient attention is being

paid to mentoring, systematic career development and succession planning. The Thodey Report in particular called for more APS-wide initiatives to build professional expertise in priority areas including HRM itself, digital capability, data and policy.

Financial, performance and risk management

Improving financial management was a key focus of the new public management reforms in the 1980s and 1990s, with risk management also gaining increasing attention from the 1990s. The shift in focus from inputs and processes to program outputs and outcomes was at the core of the new managerialism, and was regarded as relatively successful in changing culture and practice to a focus on 'results'. Fast forward 30 years, however, and the achievements of the 1980s and 1990s were dissipated through neglect of the basics across the Australian Public Service (Senior executive, Finance Department, quoted in Halligan 2020:98). The position was described in a review of financial accountability as follows: 'some of the clarity provided by this simple conception has been lost over time. Moreover, the financial framework does not currently draw links to planning, budgeting or evaluation activities' (DFD 2012b:14).

As discussed further below, the subsequent passing of the PGPA Act provided a firmer framework for linking budgeting, corporate planning and performance reporting, but questions remain as to the extent to which this has affected practice. Australia has been committed to performance management for over three decades, during which the measurement and performance frameworks have been refined and the capacity to monitor performance has increased. However, practice has fallen short of aspirations with persistent issues with the quality and use of performance information, internal decision-making and external reporting, and the variable engagement of departments and limited interest by parliamentary committees (Alexander and Thodey 2018; Smith et al. 2021).

Risk management received new momentum during the 2000s, particularly where risk was perceived to be increasing, and as a focus on innovation became fashionable. However, work for CFAR found that implementing risk management has been hard work (see DFD 2012a, 2012b). The APS grappled with making risk management work effectively and, while some progress occurred, it remained variable across the APS and a culture of risk management remained elusive (DFD 2012a:57). In the agency capability reviews, risk management ranked poorly: two-thirds of the agencies ranked

below the required level (APSC 2013). According to ‘external and self-assessments of APS practice ... too often risk management is a compliance exercise rather than a way of working’ (APSC 2014:11–12). There are indications that agencies have pursued risk management more seriously under the PGPA legislation but progress by the majority of agencies has been uneven. Given the rather tortuous engagement with risk management (in a risk-averse environment), this could either be interpreted as a continuing problem or alternatively as representing some progress from a low base. Risk practice has remained relatively immature. A more effective risk culture is unlikely without support from political leaders (Alexander and Thodey 2018).

Digital capability

Concern about insufficient digital capability is not based so much on any loss of past capability (though the extent of contracting out IT is a factor) but on the importance today of digital capability in all areas of the APS including service delivery, policy advising, regulation and research, and the failure to invest sufficiently. The Thodey Review suggested the need to invest perhaps between AUD400 and AUD900 million a year more than at present in IT capital, and to both deepen professional expertise in the field and broaden digital skills across the APS and appreciation of its potential to improve outcomes. The review also suggested that optimal use of technology is likely to require significant changes not only to employee skills and expertise but also to the way people work together and their organisational structures.

APS capability as an institution

In general, trends indicate a decline in broad capability as an institution. This reflects both excessive use of external suppliers of services and advice and politicisation leading to a loss of appreciation of the (implied) constitutional role of the APS.

Australia has yet to properly confront the issue of using external providers versus public service capacity. There has been a strong push to take advantage of external providers, using competition to maximise efficiency, but this push has now gone further with a public service staffing cap put in place in 2015, fixing average staffing to 2006–07 levels, requiring agencies to draw on external support whether this represents value for money or not. The result is that, while APS staffing has remained static, a very large workforce

of consultants, contractors and labour hire has emerged undertaking public service functions at taxpayers' expense. According to Thodey inquiry figures, contracting out more than doubled over four years to 2016–17, while expenditure on consultants increased by over 40 per cent (Rollins 2019).

Questions have been raised in particular about the trend to increased consultant use at the expense of a hollowed-out public service, including the auditor-general's broader review of procurement practices of government (ANAO 2020a). The ANAO reported an increase in spending on consultants over a decade from under AUD400 million to over AUD1.1 billion in 2018–19 (ANAO 2020a:45). A former secretary of the Department of the Prime Minister and Cabinet, Martin Parkinson, summed up the position: 'a number of departments, a number of agencies, abrogated their core responsibility and have become over reliant on consultants' and, while acknowledging that there were appropriate situations that warranted consultant use, he went on to say: 'if you get to the space where you basically hand over thinking about policy development, policy prioritisation, to consultants, then you've actually given away your core business. And then you should ask yourself, what are you doing here?' (quoted in Easton 2018).

As discussed further below, both the Moran and Thodey reviews expressed concerns about APS capability at the macro level, calling for a strengthening of the APS as an institution serving the government, the parliament and the Australian public. They call for a more unified approach and also for strengthening of its merit-based, neutral professionalism, by implication winding back aspects of the politicisation and externalisation trends of previous decades and, to an extent, re-establishing the importance of the APS's policy advising role as well as its managerial role.

Recent developments to improve capability and the current state of play

While each review undertaken led to a flurry of activity, the gains each time have to date proven to be disappointing or short-lived and underlying concerns have not been adequately addressed. Following the Moran Report, the *Public Service Act 1999* (Cth) was amended in 2013 strengthening the role of the APS commissioner including 'to strengthen the professionalism of the APS and to facilitate continuous improvement in workforce management in the APS' and to 'monitor, review and report on APS capabilities within and between Agencies to promote high standards

of accountability, effectiveness and performance' (s 41(1)(c)). The former Management Advisory Board was replaced by the Secretaries Board with explicit responsibility for 'stewardship' of the APS (s 64(3)(a)); secretaries were also made responsible for 'stewardship' of their departments and across the APS (s 57(1)(c)). The amended Act gave the APS commissioner a role, with the secretary of the Department of the Prime Minister and Cabinet, in advising on top appointments with the aim of reinforcing merit, and also lent more support to merit-based arrangements by limiting the use of short-term appointments (under five years) and involving the Governor-General, not just the prime minister.

However, additional resources for the APS Commission to implement the Moran recommendations were withdrawn by the Gillard Government during the 2010 election campaign. Moreover, while the recommended series of agency capability reviews were conducted between 2011 and 2015, and agency plans developed to address identified weaknesses, no action was taken to achieve a more consistent and centralised remuneration system, and the emphasis on merit and capability quickly dissipated on the election of the Abbott Government in 2013. Several secretaries were summarily dismissed by the new government, staff ceilings were imposed and the agency-based remuneration system was firmly reinforced. Subsequently a new APS commissioner was appointed who had political connections with the government, was opposed to APS-wide remuneration and uninterested in continuing with capability reviews.

Following CFAR, the PGPA Act replaced the previous financial management and accountability legislation, providing a single, principles-based framework for all Commonwealth Government organisations. The legislation mandates corporate plans which focus on each agency's capability to deliver the performance targets set out in the annual portfolio budget statements (PBSs), which have long been central to Australia's performance management system, setting out the government's policy objectives and performance targets alongside the resources made available in the budget. The legislation also strengthened the existing requirement for agencies to report on performance against the PBS objectives and targets in their annual reports and added a requirement for the annual reports to also identify performance against corporate plan strategies. The legislation introduced explicit statutory requirements for risk management, going beyond previous Department of Finance guidelines, with a detailed Rule issued by the minister for finance.

While the new legislation provided the opportunity for ‘making “accountability for results” really work’ (Podger 2018), along with improved risk management and more attention to agencies’ capability, the Alexander/Thodey Review (2018) revealed limited action.

The 2019 Thodey Review also concluded that much more needed to be done, including through a firmer whole-of-APS approach coordinated by the Secretaries Board, though it acknowledged some efforts were already being made to address weaknesses. For example, a Digital Transformation Agency had been established and the APS Commission was already introducing its ‘professions model’ to promote APS-wide professional development in key areas, drawing on recent UK initiatives (Bartlett 2020). ‘Professions’ identified include digital, HRM and data; other ‘professions’ being considered include policy advising and procurement (the Department of Finance had already established a centre of excellence in procurement to promote improvements across the APS in value-for-money procurement).

The Morrison Government agreed to a number of the Thodey Review’s recommendations aimed to enhance APS capability including:

- A firmer focus on investment and utilisation of technology across the APS;
- The delivery of seamless government services, integrated across the Commonwealth and with the states and territories and other providers (and had already established Services Australia six months earlier as an executive agency responsible for delivering social security and Medicare benefits and other human services);
- The development of an APS-wide workforce strategy and associated enhancements to HRM including the ‘professions model’ and improved APS-wide learning and development (which led to the establishment of a new APS Academy within the APS Commission in mid-2021);
- The reintroduction of agency capability reviews to assess organisational capability and advise on strategies for improvement; and
- Measures aimed to streamline management, reduce hierarchies and develop ‘optimal management structures’.

The Secretaries Board was charged with overseeing implementation of the government’s response to the Thodey Review, presented in the form of its own APS reform agenda, *Delivering for all Australians* (Commonwealth of Australia 2019).

It is still early days in the implementation of the recommendations agreed by the Morrison Government, and some delays have been unavoidable given COVID-19. Nonetheless, in responding to COVID-19, the APS has successfully adopted a number of the approaches set out in the Thodey Review and the government's response. These include firmer coordination by the Secretaries Board, drawing also on external support and expertise, APS-wide mobilisation of staff to address particular pressures, such as high demand for income support, and clear APS-wide policies for safe, effective and efficient work practices utilising new technology.

As discussed further below, the Albanese Government elected in May 2022 has indicated a desire to revisit the Thodey Review, including those recommendations rejected by the Morrison Government.

System-level capability

While the most recent measures indicate substantial system-wide effort to reverse the decline in capability identified by Thodey and the earlier reviews, and to enhance capability by better use of technology, the Morrison Government's failure to act on other key Thodey recommendations means that important forces contributing to the observed loss of capability have so far continued unabated.

In particular, the politicisation trend has continued because the government rejected recommendations to enhance the merit basis for senior appointments and the status of the APS commissioner, and to impose firmer accountability requirements on ministerial advisers. Indeed, prior to responding to the Thodey Review, Prime Minister Morrison announced the termination of four more secretaries for reasons other than merit (DPMC 2019). While the government was relying more heavily on the Secretaries Board for whole-of-APS and whole-of-government coordination, including to promote capability and performance, as encouraged by Thodey, this was subject to firm controls by the prime minister who appointed a long-term political adviser as secretary of the Department of the Prime Minister and Cabinet and chair of the Secretaries Board (effectively the head of the APS).

The rejection of the recommendation for a more systematic approach to evaluations via Cabinet and budget processes, and the decision that research and evaluation only be published 'as appropriate', also confirmed the then government's insistence on political control. Other indicators of

continued politicisation include the incidence of political appointments to boards and tribunals—for example, this has been raised as a contributor to problems at Australia Post (Senate Environment and Communications References Committee 2021) and as undermining the independence of the Administrative Appeals Tribunal (Bedford 2019; Whiteford 2021; Curtis 2022)—and the degree to which political considerations are outweighing the public interest in the administration of government grants programs (e.g. ANAO 2020b, 2021). Politicisation is also emerging as a significant factor in the ‘Robodebt’ case with senior public servants unwilling to provide frank advice on the unlawfulness of actions agreed by the Government to address claimed ‘overpayments’ (Podger 2023).

‘Externalisation’ also continued with the Morrison Government’s rejection of the recommendation to remove APS staff ceilings. These have forced agencies to rely increasingly heavily on consultants, contractors and labour hire even when this is clearly inconsistent with value for money. It has also increased the risk of fraud and the use of labour that is not subject to such core public sector values as merit.

The current agency-based approach to setting pay and conditions has continued, following the then government’s rejection of the recommendation to move towards common core conditions and pay scales. As a result, remuneration continues not to reflect market reality or ensure the APS can attract, develop and retain the skills it needs. The wide variations in pay caused by the current devolved approach is also inhibiting mobility across the APS and making any structural changes desired by government more difficult to manage.

Continued failure to act on these matters would limit any enhancement of APS capabilities including with regard to digital capability; it would also reinforce the risk-averse culture that recent reviews have highlighted and undermine the professionalism of the APS and its capacity to serve the parliament and the Australian public as well as the government.

The strong impression is that the APS has generally been trying hard to maintain and enhance its capability and performance and to foster appreciation of its core values, but its efforts have been constantly undermined by politicisation and externalisation pressures. APS leadership has increasingly been caught by the pressures to be responsive to the elected government while legally obliged to promote as well as uphold the APS values: the resulting behaviour has not always provided a good model for their staff.

The good news is that the new Albanese Government has indicated an intention to revisit the Thodey Report's recommendations for a more system-level enhancement of capability. While the government is yet to specify the actions it will take other than to reduce expenditure on consultants, contractors and labour hire and to remove public service staffing caps, there is reason to believe it is serious. The Senate Committee Inquiry Report (2021) was prepared primarily by its Labor Party members (who are now in government): it lent considerable support to the deeper reforms proposed by Thodey. More significantly, the new prime minister's appointment of two of the Thodey Review's members as departmental secretaries (Professor Glyn Davis, as head of his own department and Gordon de Brouwer, to a new role of secretary for public sector reform) confirms the government's determination to pursue major reform (Albanese 2022).

Revisiting the definition of capability

Defining and measuring civil service capability depends firstly on the institutional structure within which the civil service operates and the associated responsibilities of the civil service, and secondly on whether an agency-by-agency (or organisational unit) perspective is involved or a whole-of-public-service perspective pursued.

In the first round of capability reviews undertaken in Australia, the UK experience was followed closely, given the broad similarities of the two Westminster institutional arrangements where there is considerable separation of politics from administration within the executive, with the elected politicians setting policy and the civil service being responsible for both advising on policy and the administration of policies and programs. The UK approach also focused primarily on each agency's capabilities; to the extent it measured the capability of the civil service as a whole it did so through consideration of the set of agency reviews and identification of common strengths or weaknesses.

New Zealand developed its own version, the performance improvement framework, which was designed to identify gaps and opportunities in current and future agency capability and performance (Halligan 2020). A future strategy was incorporated in a capability review of the APS Commission, the first of a new round of Australian reviews (APSC 2019).

The UK methodology used in Australia involved assessing the agency’s collective expertise and its processes and systems. It did so across three ‘domains’:

- Leadership, including setting directions and developing and motivating people;
- Strategy, including building a common purpose through collaboration and drawing on evidence to make choices and focus on outcomes; and
- Delivery, including planning and resources management, performance management and sound delivery and innovation (Harmer and Podger 2013).

This framework is being reviewed for the new program of APS capability reviews.

A recent study by the Australia and New Zealand School of Government (ANZSOG) (Speagle et al. 2021) conducted for the Western Australian Government has suggested modifications to previous approaches in light of experience in New Zealand and Canada as well as the UK and Australia. As shown in Figure 15.4, the study suggests five domains for both assessment and future capability enhancement:

Leadership, Culture, and Direction	Delivery for Citizens	Relationships	People Development	Resource and Risk Management
<ul style="list-style-type: none"> • Purpose, vision and strategy • Values, culture and behaviour • Organisational governance • Review and evaluation 	<ul style="list-style-type: none"> • Citizen focus • Policy and Planning • Service delivery • Managing for results and value for money 	<ul style="list-style-type: none"> • Engagement with Ministers • Public sector contribution (pursuing whole-of-Government or cross-cutting outcomes) • Engagement outside the public sector 	<ul style="list-style-type: none"> • Strategic workforce development • Management and development of people performance • Engagement with staff 	<ul style="list-style-type: none"> • Asset management • Information and technology management • Financial management • Procurement and project management • Integrity and risk management

Figure 15.4: Agency capability domains.

Source: Speagle et al. (2021:33).

The ANZSOG study suggests this framework is more practical and comprehensive than the earlier ones. It also suggests some modifications to the way the capability reviews should be conducted to ensure a more standard approach, while endorsing the earlier emphasis on shared learning. The ANZSOG approach might assist with identifying APS-wide capability strengths and weaknesses from the emerging set of agency capability reviews, and whether APS-wide policies and procedures are enhancing or exacerbating capability. The coordinating capability of the APS has become more important with the trend of ‘externalisation’ and the reliance on non-governmental actors

(Wegrich and Štimac 2014). But the capability of the APS as a whole involves additional issues, including its governance as an institution and its relationship with the government, the parliament and the Australian public. In turn, these additional issues are affected by broader institutional arrangements across the executive, the legislature and the judiciary.

Conclusion

The reform era in Australia and other Anglophone countries began in part because the civil service was considered to be too independent and insufficiently responsive to the elected politicians, but this has morphed into one of insufficient constraints on politicians' involvement in administration. The civil service was also considered to be too insular, not sufficiently engaged with the public and not subject to the pressures for efficiency that occur in the private sector; but to an extent this has morphed into excessive reliance on the private sector and its management practices and insufficient appreciation of the unique role of the civil service and the 'craft' of public administration.

The extended period of reform has, despite its many successes, provided salutary reminders of how much the changing context matters and how, at the same time, underlying institutional arrangements need to be preserved and fostered.

Under the Westminster model, relations between politicians and public servants traditionally centred on the coexistence of the neutral public service and responsible government. The embedded tension between the two elements was kept in balance by applying well-established principles and norms: a neutral public service that served the political executive regardless of party, and a political executive that respected the integrity of the civil service by maintaining its apolitical and professional character. Specific features were the career public servant, a permanent official who survived successive governments; senior appointments drawn from the ranks of professional careerists; and the ministerial department as a repository of policy knowledge and primary adviser to government (Halligan 2020). The relationship was one of a trusted partnership rather than of principal-agent control.

While some adjustments to these arrangements were inevitable with increased demands on government and a more complex environment both domestically and internationally, Australia has been both managerialised

and politicised to an extent that has undermined the trusted partnership of the past. Indeed, politicisation and externalisation generally exceeds that in other Anglophone countries; New Zealand may be equally or more managerialist, but politicians' influence there is far more contained (Craft and Halligan 2020).

Political advisers are numerous (second only to Canada) and influential at the departmental level and in the Prime Minister's Office. The appointment and displacement of department heads is more politicised: they have seemingly been dismissed at the whim of ministers, behaviour unprecedented in its frequency and public character. A high level of political control has occurred under specific regimes with heavy use of partisan instruments (Halligan 2020). Concerns have been raised as to whether the public service can perform its constitutional responsibilities because 'the thickening of the interaction between the APS and ministers, coupled with professionalisation of politics, has changed the relationship ... to one often more akin to "master-servant"' (Podger 2019a:5).

The Moran and Thodey reviews pointed to the need to reverse some of the politicisation shift of recent decades. The Morrison Government's rejection of relevant Thodey recommendations, however, confirmed the politicisation trend. A powerful indicator was the explicit consignment of the public service to implementing policy directions, and the emphasis on a Policy Implementation Committee of Cabinet (Morrison 2019, 2020).

Those two major reviews nonetheless concluded that the APS remained among the best civil services internationally. In many respects that can be confirmed through consideration of particular public administration functions such as tax administration, national statistics, regulation of competition, the payment of social security and Medicare benefits, macro-economic advising and budget processes. For the most part, Australia's COVID-19 response also confirms the capability of the APS (and state public services).

The key message from this overview, however, is that these successes and the capability behind them are at risk if the capability of the APS as an institution is under threat, which it has been from excessive politicisation and externalisation in particular. The new Albanese Government has promised to address these concerns: its initial statements and actions suggest it is serious but sustained effort will be required to halt and reverse the trends of recent decades.

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Part 4: Service delivery

The Dialogue's original workshop in 2011 focused on 'citizens-centred services'. The resulting symposium of papers, published in a special issue of the *Australian Journal of Public Administration* (Volume 71, Issue 3), presented a very positive view of developments in all three jurisdictions. The PRC's remarkable reshaping of the relationship among the state, the market and the community over the previous three decades of economic liberalisation included the rising use of citizens' satisfaction surveys, increased citizen participation in local government decision-making and a greater role for non-government organisations. In the continuing absence of formal democratic processes, 'social accountability' was nonetheless seen to be emerging in Mainland China. Taiwan also was looking for more 'downwards and outwards' accountability to complement its formal 'upwards accountability' through elected officials, for example through regular citizens' surveys and new public management (NPM)-style performance management to improve responsiveness to clients. The growing interest in the idea of citizens-centred services in Australia aimed to complement and supplement upwards accountability in order to improve responsiveness not only to the needs of citizens, but also to their preferences. The agenda included experiments in 'co-design' and 'co-production' and offering more choice over services and providers, as well as more systematic consultation, but governments were reluctant to test public responses, let alone publish the results.

The chapters in this section suggest there remains a relatively positive outlook about continuing improvement in service delivery across the three jurisdictions, but the challenges involved are also given greater emphasis. The chapters explore in more detail particular areas of service delivery, including health and aged care. The increasing importance of digital technology is also demonstrated, reinforcing the picture presented at the Dialogue's 2019 workshop on taking advantage of technology (a symposium of papers arising from that workshop was published in the *Asia Pacific Journal of Public Administration* (Volume 42, Issue 4)). Notwithstanding the differences in political, economic and social circumstances, the chapters reveal considerable cross-border influences including NPM and post-NPM developments and the major role of new technology in guiding many reforms. However, there was a large rhetoric–reality gap: governments often preached client-focused philosophies (their strategies implemented and assessed primarily by professional bureaucrats) but in practice were rarely prepared to actually empower clients in formulating their needs and care provisions.

Liang Ma reviews China's reforms of administrative services for individuals and businesses (such as registrations and licenses). Like those pursued by Australian governments (such as Services NSW), these take advantage of digital technology to offer fully integrated services that can be accessed simply and conveniently (accessible one-stop shops). Ma highlights how the reforms under Xi Jinping and Li Keqiang reflect aspects of both NPM and post-NPM developments elsewhere, though they also involve considerable indigenous experiments and innovations and seem to go further than has so far been accepted in Australia. Compared to previous reforms in China, these have much firmer top-level design, which governments then implement.

Gordon de Brouwer sets out the service delivery reform agenda of Australia's Commonwealth (national) government, noting that most service delivery is by the state and territory governments. For three decades, the Commonwealth has taken steps to reduce complexity in its services to make them more convenient for citizens and to improve outcomes, without necessarily involving them directly. The agenda now involves investing even more in digital technology, exploring ways to better link Commonwealth and state/territory service delivery and building close collaboration with the community. It requires the national government and its public service to give higher priority to service delivery rather than just to policy, and to strengthen its capabilities in digital technology and the use of big data. De Brouwer also describes the impact of the COVID-19 pandemic including how it confirmed the importance of data across and beyond government and, for the most part, involved close collaboration between the Commonwealth and the states and territories. Among the challenges for the next stage of reform is to sustain such collaboration, to ensure technology works and data are secure and safe, and to retain strong political support.

Ian Scott and **Ting Gong** explore the balancing of vertical and horizontal structures and processes for efficient delivery of services that meet people's needs in one of China's quasi-autonomous provinces. Rather than look to abolish 'silos', they suggest the use of coordination mechanisms which preserve the efficiency and accountability advantages of silos. They examine Hong Kong practice, including examples of serious failures of agencies to coordinate, identifying the need for coordination at the service delivery level as well as at the top, and the role of monitoring agencies such as Hong Kong's integrated call centre, which provides a one-stop shop for enquiries and complaints. Their conclusion is that silos can engage in effective horizontal coordination if the conditions are right and practitioners make the necessary investment of time and resources.

Bingqin Li reviews the chequered history of aged care reform in China since the economic opening-up changes ended the role of collectives and state-owned enterprises providing comprehensive social support to workers and their families. Various models have been tried over the years, with limited success, as broader societal changes—smaller families, ageing population, urbanisation and the separation of many workers and their families from their parents—have made it difficult for the elderly to rely on their children and grandchildren for support. From government-led investments to reliance on the market to involving social organisations, the models struggled to sustain the services needed. There was insufficient ongoing government support, the market concentrated on the wealthy, local governments needed to develop collaborative relationships with NGOs and the elderly did not always trust the social organisations. More recently, since 2016, the government has set clearer goals for the development of an old age care system with a mix of home-based, community-based and institutions-based services. While supply is still far from being sufficient to meet needs, and many live in states of neglect, by 2020 some progress had been made. The model has community service centres functioning as a platform for linking resources and the different services. The 2021–2025 plan aims to go further, synthesising home care, community care and residential care integrated with health and medical care and promoting ‘smart old aged care’; it is also to be linked to a multilevel and multi-pillar pension insurance scheme. The scale of the reform agenda presents major challenges: clarifying the concept of ‘community’; making the provision of community services attractive to business; developing governance systems that engage with business, NGOs and communities; ensuring the model is affordable to both government and the elderly; and finding the necessary workforce. Ultimately, for the care system to function well, it is important to find a coherent overall framework with state subsidies based on assessments of care needs and ability for users to pay, leaving a clearer role for the market and social organisations to deliver services. While there are currently experiments in long-term care insurance, to what extent this might help is yet to be seen.

Jiwei Qian analyses resource allocation in China’s health system since comprehensive financial reforms were introduced in 2009. While total health expenditure has increased dramatically since the SARS (severe acute respiratory syndrome) outbreak in 2003, and out-of-pocket expenditure has fallen from over 50 per cent to under 30 per cent of total health expenditures, there remain huge disparities between the capacity of grassroots primary care providers and the large hospitals in big cities. The amount of fiscal subsidy for primary care has increased significantly and social insurance now covers

over 90 per cent of the population, but there has been a proportional shift away from primary care and public health. Qian argues that this represents an unintended misallocation of resources which is adversely affecting access to effective and appropriate care, particularly in rural areas and smaller cities. The misallocation reflects the impact of the incentives for bureaucrats at different levels due to the performance evaluation system. The 14th Five-Year Plan issued in 2021 includes enhancing primary health care and public health institutions, and in May 2021 the National Administration for Disease Control and Prevention was established. But unless the incentives for bureaucrats are reviewed, Qian fears continued unintended consequences including misallocation of resources.

Helen Liu provides a fascinating case study of Taiwan's Safeguard Happiness Station project, revealing how its success was based on transitioning from a public-private partnership to a broader network governance arrangement. The project aims to provide timely assistance to needy teenagers and children. It involves a collaboration with convenience stores not only to provide emergency meals but to connect the children and their families to an extensive social safety net. The network involves schools, the High-Risk Family Service Management Centre (part of the Social Welfare Department), police, the Labour Affairs Department, convenience store chains (which have been encouraged to take up corporate social responsibility by the Education and Interior Ministries) and a private donor network. The case study demonstrates the potential benefits of networks with collaborative governance arrangements including the private and NGO sectors rather than more limited public-private partnership approaches.

Mike Woods examines how Australia's national government currently subsidises and regulates the delivery of aged care services by not-for-profit organisations and for-profit businesses within a quasi-competitive environment, and explores the government's responses to the challenges of managing sustainability of the system while ensuring consumer choice and control, delivering improved quality and safety and enhancing provider responsiveness. Australia's ageing population, particularly the increasing number of people over 80, is placing considerable financial pressure on the aged care system and raising significant workforce challenges, particularly because the elderly and their families do not want to pay for care. A Royal Commission into Aged Care Safety and Quality documented many cases of mistreatment and recommended in 2021 a great many initiatives likely to further impact the system's sustainability. Prior to 2012, the system was characterised by high levels of regulation in part to protect the government's

budgetary exposure but with the downside of giving selected providers privileged positions and limiting consumer choice. Reforms since 2012 have looked to replace supply-side controls and to introduce a competitive residential aged care market while also continuing to give more emphasis to non-residential care services. Particularly in light of the royal commission report, such an approach will need to meet a number of key principles including driving quality and safety outcomes that meet or exceed approved standards. Woods highlights the consequential challenges of fiscal and workforce sustainability and the need to increase the level of contributions from consumers, particularly those with high levels of wealth or income.

Key conclusions to draw from these chapters include:

- All jurisdictions are investing heavily to improve public services, the scale of the effort being particularly large in the PRC but also proving to be a continuing challenge in Australia despite many more decades of service delivery experience.
- New technology offers the opportunity for significant enhancements but the risks, including to the rights of citizens, need to be carefully managed (this may be attracting less attention in the PRC than in Australia, but even in Australia experience still reveals significant lapses).
- Notwithstanding the capacity of technology to deliver integrated services, government silos still have a role so long as there is sufficient investment in time and resources for coordination both on the ground and at the top.
- There are common challenges in establishing a clear and sustainable framework for providing aged care services, one that encompasses the respective roles of government, the market, civil society and the aged people themselves and their families. This challenge may be particularly acute in the PRC, as the shift from reliance on family support is more recent and boundaries between government, business and civil society are blurred under the party-state (more so under President Xi), but the challenge is also significant in Australia, as it grapples with the sustainability of its aged care system.
- There is a common desire for greater responsiveness to the needs and preferences of citizens, but a continuing gap between rhetoric and reality.

The issues raised in these chapters overlap extensively with those in the earlier sections: among governments, who has what responsibility for service delivery; how are services funded and their performance monitored; and what new capabilities are required in the civil service to ensure improved service delivery.

16

Recent developments and future directions of administrative service reform in China

Liang Ma¹

Abstract

This chapter reviews the recent reforms and developments of administrative service delivery in Mainland China, and specifically focuses on the reforms to streamline administrative services by delegating power, strengthening regulation and improving services (*Fangguanfu* reforms, or the FGF reforms). The chapter analyses the key initiatives in decentralisation, regulatory innovations and public service delivery reforms, and discusses the main challenges in implementing the FGF reforms. The FGF reforms may be considered a hybrid of new public management (NPM) and post-NPM reforms with Chinese characteristics: top-level design and local pilots, together with citizen engagement and digitalisation, play key roles in the reform. The chapter concludes with a discussion of the implications of the recent FGF reforms for theoretical developments and comparative studies of administrative reforms.

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Keywords: public service delivery; administrative service; administrative reform; digital government.

Introduction

The system of delivering public services in China, specifically the administrative services affecting individuals and businesses including, the examination and approval procedures for day-to-day business, have been substantially transformed since the instalment of the Xi Jinping administration in 2012; Premier Li Keqiang and his team at the General Office of the State Council have been leading the reforms. The reforms, called ‘the reforms to streamline administration, delegate power, strengthen regulation, and improve services’ (*Fangguanfu* reforms, or the FGF reforms), are ambitious and comprehensive, and are already achieving remarkable improvements in state–citizen interaction and the regulatory environment of doing business.

As one of the core missions of the Xi Jinping administration, the FGF reforms were kicked off in 2015 by the central government in China, with the purpose of transforming government functions, improving the business environment and boosting citizen satisfaction and government legitimacy. The FGF reforms require the central and provincial governments to delegate power and authority to lower-level governments at the grassroots levels (e.g. town/township/subdistrict and community/village), which are expected to directly deliver customised administrative services to citizens and businesses. The FGF reforms urge government agencies to strengthen and transform business regulations, particularly market entry and regulatory compliance. The FGF reforms aim to innovate and improve public services: digital technologies are leveraged both to improve service efficiency and to respond better to citizens’ and businesses’ needs and expectations.

Governments deliver a very wide range of public services include infrastructure, education, healthcare, environmental protection, public housing, social security, cultural and sports facilities and public transport (Osborne 2020). In 2017, China’s central government released the 13th Five-Year Plan for essential public services for the first time, which listed eight categories of public services that local governments should deliver, including education, jobs and entrepreneurship, social insurance, health care, social services for the elderly, housing, culture and sports, and services for the disabled. Central and local governments share their financing responsibilities according to provincial fiscal capacity. For instance, Beijing and other affluent municipalities

and provinces shoulder 90 per cent of their total spending, while inland provinces such as Xinjiang are required only to cover 20 per cent. The central government announced national standards for these essential public services in 2021 specifying the criteria and procedures for their delivery. The 14th Five-Year Plan for public services (2021–2025), drafted by the National Development and Reform Commission, was approved by the State Council and promulgated in 2022: it significantly expanded the coverage of public services. Apart from the essential public services covered by the 13th Five-Year Plan (2016–2021), non-essential public services and community services such as childcare, preschool education and housekeeping are also highlighted in the updated plan.

This chapter does not explore public services such as education, health, environment and transport. Instead, it focuses on administrative services that are central to the relationship between government and citizens and businesses and critical to the delivery of many of the broader public services. Administrative services include government information disclosure, administrative review and approval; birth registration, driving licenses, car registration and other accreditations citizens need; and business registration, tax reporting and building approvals, etc. which businesses need. Citizens and businesses who are required to provide information or to seek permission to do things need first to be informed about the procedures involved; public service agencies must then check such provided information and determine if the citizens/businesses are eligible to be registered or licensed. For instance, citizens have to register with government official portals (or other offline and online channels) and submit forms and supporting documents; government employees then review the forms and applications and inform the citizens whether their applications have been approved. Registration typically affects how other public services are provided, including health care, social security, education, transport and public housing. In other words, administrative services are not only a subset of overall public services, but also impact a wide range of public services. For these reasons, they are a major focus for reform.

China is not alone in this wave of administrative reform, and it is not unique in terms of its reform agenda and approaches. For instance, there are both new public management (NPM) and post-NPM aspects to the FGF reforms, and such a hybridity together with Chinese characteristics merits academic attention. The FGF reforms are relevant to deepening understanding of government reforms in China, and they provoke comparison with similar practices in other contexts.

They also represent a case study of how reforms, whatever their derivation, must be adapted to fit in with a country's real political framework (Pollitt and Bouckaert 2017; Peters 2018). Reforms are not existentially neutral, but rather are shaped, adopted, amended and necessarily evolutionary within a specific indigenous political and administrative set of cultures. Accordingly, the values and politics of the Chinese party-state system inform adoption and implementation of the reforms in China.

This chapter reviews the recent reforms and developments of public service delivery in Mainland China, and specifically focuses on the FGF reforms. Following a brief discussion of concepts and theories, the key initiatives of decentralisation, regulatory innovations and public service delivery reforms are analysed, and the main challenges during implementation of the reforms are discussed. The chapter mainly uses the cases of Beijing, Zhejiang and Guizhou to show how the FGF reforms work, and also uses secondary archives and interviewing data to support the assessment. In the concluding section, the broader challenges of the recent reforms are discussed, together with the implications for theoretical developments and comparative studies.

Concepts and theories

Administrative reforms: NPM and post-NPM influences

Administrative reforms in recent decades are often examined through the perspectives of NPM and post-NPM developments in public administration. This chapter draws on these two international trends to review China's FGF reforms. The NPM reforms and the government reinvention movement since the late 1980s have been influential first in the Anglo-Saxon countries and then in the rest of the world (Christensen and Læg Reid 2007b). Traditional public administration is characterised by procedure-based bureaucracy and business processes inert to changes in the external environment or citizens' demands. NPM involved government learning from the private sector and utilising customer-centric, performance-driven and result-oriented approaches to improve government performance (Hood 1991). Market competition, performance measurement and customer orientation, among other techniques, were introduced into government, and government practices increasingly mimicked those of private businesses. While NPM-oriented reforms helped mitigate some of the problems of traditional bureaucracy (Dan and Pollitt 2015), they also introduced their

own problems (Lapuenta and Van de Walle 2020). For instance, as public services were increasingly outsourced to the private sector, government capability was hollowed out; the focus on each agency and program to improve performance also led to government working in silos, weakening horizontal coordination. Also, privatisation of public services, particularly in the field of infrastructure and public utility, jeopardised public service values, increasing the risk of social inequality (Bertelli et al. 2020).

Post-NPM or new public governance emerged in the 2000s to address the problems of NPM reforms, promoting values and approaches substantially different in many respects from that of NPM (Reiter and Klenk 2018). To some extent, post-NPM has involved a retreat to traditional bureaucracy, while retaining some elements of NPM. For instance, post-NPM reforms usually involve whole-of-government approaches, highlighting the imperative that government agencies should work together in making things happen (Christensen and Læg Reid 2007a). Also, citizens are not simply considered as ‘customers’ or ‘clients’ of government services, but instead are recognised as having rights and obligations and are to be more fully engaged, including through co-design of public policies, co-production of public services and co-creation of public value (Alford and O’Flynn 2012).

NPM and post-NPM are not completely distinct paradigms, however: instead, around the world, they are often combined or hybridised in administrative reforms. The recent government reforms in China are an example of a hybrid of NPM and post-NPM approaches, and there are also many other examples of this hybridity (Christensen and Fan 2016; Tian and Christensen 2019). For instance, super-ministry reforms and small leading groups have been promoted in China’s recent government reforms to help strengthen inter-agency coordination, but most decision-making, policy implementation, and scrutiny are still fragmented across agencies and different levels of government. Also, market-oriented reforms in many of China’s public service areas have been maintained, but the control and coordination of the Chinese Communist Party (CCP), the sole ruling party of China, has not been weakened but rather strengthened over the past decade.

State–citizen interaction and administrative burden

Public administration may be separated into two components, and administrative reforms may be aimed at either or both of them. One concerns the internal operations and management of government, including strategic management, organisational structure and processes,

personnel management, budgeting and technologies. The other concerns government's external relations, including the interactions between government and citizens and other stakeholders—for example, businesses (both as vendors and customers) and non-government organisations—to deliver public services and to regulate behaviour in the public interest. The ultimate goal of internal operations and management is to facilitate meeting government's external responsibilities, and these may in turn spur further internal reforms and changes. Administrative reforms are mainly aimed at streamlining internal structures and processes, and thereby at rebalancing the interactions between the state and citizens/businesses.

This chapter considers the FGF reforms through the perspective of state–citizen interactions (Jakobsen et al. 2016), and how the various reform measures are being used to facilitate simpler interactions between government and citizens/businesses. Government agencies are set up to perform separate functions, but the separation of many functions and agencies often frustrates citizens and businesses who want to interact with government. Also, particularly in China, there is currently serious risk of street-level bureaucrats misusing or abusing administrative discretion in their daily interactions with citizens and/or businesses, making government unresponsive to public demands.

One of the purposes of the FGF reforms is to reduce administrative burden. Administrative burden is the costs shouldered by citizens and businesses in their interactions with government, which includes learning cost, compliance cost and psychological cost (Moynihan et al. 2015; Herd and Moynihan 2018). The learning cost refers to the cost to citizens from having to learn about administrative eligibilities, procedures and processes; these usually require citizens to have sufficient cognitive capacity, social capital and administrative resources. The compliance cost refers to the costs citizens have to shoulder in order to comply with government policies, including various fees and direct and indirect expenses during their interactions. For instance, citizens may have to apply for leave and pay for commuting between government agencies and their localities, in addition to meeting compulsory processing fees. The psychological cost is the psychological discomfort involved in the state–citizen interactions, including anxiety, nervousness, frustration and depression.

Organisational restructuring and business process reengineering can help streamline state–citizen interactions and reduce the administrative burden. For instance, a whole-of-government approach can help citizens and businesses to interact with government more easily so they do not have

to approach each agency separately and face the higher costs of doing so. Also, the introduction of digital technologies and the digital transformation of government processes can facilitate state–citizen interactions, and substantially reduce the administrative burden. Particularly in the case of FGF reforms, digital technologies play an indispensable role in reducing administrative burden.

The framework behind the FGF reforms’ design and implementation

Four strategies are central to the success of the reforms. First, the administrative service reform is the landmark agenda of the new Xi Jinping administration, and top-level design and policy steering are the driving forces of the FGF reforms. Second, local governments are encouraged to implement policy pilots, which are scrutinised leading to an agreed model that is then replicated, and generalised nationally. Third, the digitalisation of administrative service delivery processes facilitates the FGF reforms, which are essential to the improvement of public service quality. Last but not least, citizens and businesses are central to the FGF reforms, and their feedback through ratings, complaints and suggestions help diagnose and improve public services.

The State Council and its General Office, particularly the Office of Government Function Transformation, is playing the lead role in the top-level design of the FGF reforms. While previous administrations focused on bottom-up local experimentation and pilots (Chen and Göbel 2016), the Xi administration highlights the paramount role of top-level design (*Dingceng Sheji*) (Ahlers 2018). For very large countries with multilevel governance regimes like China, it is important to balance central mandates and local discretion (Ang 2017). The increasing role of top-level design has meant that the state governance system has become more unified and arguably more stabilised and mature, with local governments urged to follow central mandates in policy implementation (Ma 2022). The State Council has paid attention to the World Bank’s ‘doing business’ ranking (renamed and recalibrated into the bank’s business-enabled environment survey in 2021), and the metrics are used as benchmarks to monitor and incentivise local governments to improve public service delivery and market regulation. Under the leadership of Premier Li Keqiang, the State Council has strengthened inter-ministerial coordination to facilitate data sharing and business interoperation across levels, regions and departments.

The second strategy involves local governments being mobilised by the central government to implement the FGF reforms with local experimentation, and the nationwide diffusion of the FGF reforms then being accelerated through routinised mechanisms. Since 2013, the State Council designated a group of Pilot Free Trade Zones ('Pilot FTZs') across China, which have been asked to explore frontier innovations for the FGF reforms. The policy pilots and experiments by FTZs are then carefully assessed before a nationwide policy is decided upon for replication and generalisation, and local governments are required to adopt these innovations. Different from previous bottom-up local experimentation, policy diffusion is now institutionally mandated and the extent to which agreed policies are replicated at the local level is scrutinised by the central government.

The third strategy involves embracing digital technologies, particularly big data analytics, artificial intelligence and other emerging disruptive technologies; this has been increasingly incorporated into the FGF reforms. China is leading the new wave of the digital economy, and governments are keen on introducing cutting-edge technologies in public service delivery and market regulation (Ma et al. 2021). For instance, previously businesses had to search and apply for preferential policies and subsidies for which they might be qualified, which involved costs in time, administrative capital and financial burden. Thanks to the use of big data analytics and recommendation algorithms, businesses' demographic and operating data across various departments are linked and automatically analysed against particular policy requirements to determine eligibility precisely and in a timely and fully informed manner.

Lastly, the FGF reforms have a continuous improvement focus, aimed to reduce administrative burdens in state–citizen interaction: the views and demands of citizens and businesses are central to the reform agenda (Liao 2020). Feedback from clients is used in local government performance ratings and rankings, and local officials are incentivised to meet the demands of citizens and businesses. For instance, Beijing initiated a reform called 'swift response to public complaints', which is dedicated to responding to and processing citizen complaints documented through the municipal hotline 12345 and other online channels (Wei et al. 2022). Public complaints are processed without delay, and governments stay responsive to the calls of the people. In comparison to prior rounds of administrative reforms, citizen feedback has played a more important role in eliciting policy innovations and accelerating reforms.

The FGF reforms are jointly driven by top-level design and steering, local policy experimentation and nationwide policy diffusion, digital transformation of administrative business processes, and citizen engagement and feedback. Top-down policy mandates help consolidate nationwide policies, while promising policy innovations emerge from bottom-up but centrally controlled policy experimentation. Technologies play an increasingly salient role in meeting service clients' demands, and citizens and businesses engage in the processes of service delivery to help improve service quality. Taken together, these components have helped to strengthen the FGF reforms and have also contributed in the past decade to rejuvenating the party-state regime.

The FGF reforms in China

The FGF reforms include three components: delegation, regulation and public service delivery (see Figure 16.1). The core of the FGF reforms is to rebalance and reshape the relationships between governments, businesses and citizens. The first component of the FGF reforms is to delegate power and authority to lower-level governments, which is part of an ongoing process of decentralisation and empowerment. The second component is to lower the operational cost of doing business with government through deregulation and regulatory innovations. The last component is to improve administrative services through digital technologies and business process reengineering. This chapter will review the key initiatives of the three components and use the case of the 'once-only' reform to illustrate how they work.

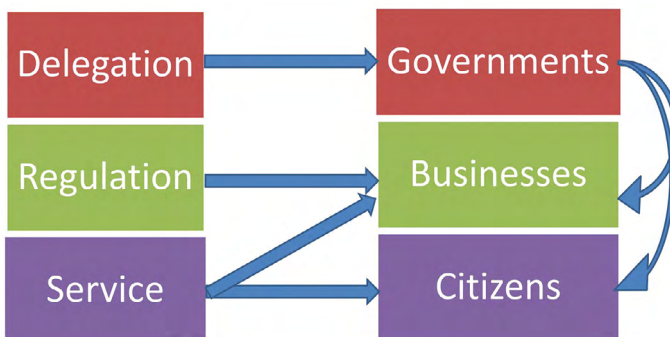


Figure 16.1: Components of FGF reforms.

Source: Author's summary.

Key initiatives (1): Delegation

The first component of the FGF reforms is to streamline administration and delegate power, with the aim of reshaping central–local relations and government–market relations. The government of China is a unitary system where cadres at lower levels of government are appointed by superior party authorities. Policy decision-making follows the chain of command, often making it difficult for lower-level governments to respond to citizen and business demands in a timely and effective manner. The bureaucracy is often characterised by the concept of ‘fragmented authoritarianism’ (Lieberthal and Lampton 1992; Mertha 2009), which means the government is authoritarian but fragmented across administrative silos created by government agencies and across different levels of government. The FGF reforms require the central ministries and commissions to delegate administrative authority to local governments, ensuring grassroots quasi-government organisations have the power to make decisions and implement the policies set by their superior authorities. Also, the FGF reforms set a framework to make public services increasingly accessible at the neighbourhood level. For instance, ‘15-minutes community service circles’ are aimed to ensure citizens and businesses have easy access to more frequently used government services.

The FGF reforms not only transform relations between central and local governments, but also transform government–market relations and government–citizen relations. The dominant central planning economy before the late 1970s involved the government controlling everything with no space for the market and civil society; the subsequent opening-up reforms have transformed government functions, allowing room for markets and citizens to develop their own businesses and activities. The past decades have witnessed some swinging back and forth of government functions, but generally government has increasingly transferred former functions to the market and society. Meanwhile, ‘social accountability’ (Ma 2012) has been strengthened, and government is under increasing scrutiny by the public, the media and other stakeholders. Developments under the Xi administration since 2012, however, have been more mixed, involving a combination of increased party control with continued reform of service delivery.

In the case of the FGF reforms, government administrative powers and authorities are now listed and published at all levels to firmly specify the scope of government functions and to help the market and society (businesses and citizens) to hold government accountable. Administrative review and approval have often involved rent-seeking and corruption, and

the FGF reforms are intended to ensure government offers the helping hand instead of the grabbing hand. The reform of administrative powers, and how relevant applications are made and approved, has significantly reduced the arbitrary power of government and the capacity for officials to exploit their positions, and empowered citizens to hold government more accountable. For instance, previously administrative decision-making was sprawled across many agencies, but the new bureau of administrative review and approval consolidates all these under one agency, making it more coherent and responsive to citizens' and businesses' demands. The rubber stamp controls of different government agencies have been sealed up, and only the bureau of administrative review and approval has the authority to approve the vast majority of administrative applications from citizens and businesses. Given the lack of nationwide inter-ministerial coordination and implementation standards, however, the scope of centralised administrative review and approval depends on the reform agenda of local governments.

Key initiatives (2): Deregulation and regulatory innovations

The second component of the FGF reforms is to reduce the administrative burden on business through various measures including deregulation and re-regulation. First, the government implemented tax cuts and administrative fee reductions to lower enterprises' operational costs and to improve their competitiveness. Previously, government agencies often set fees arbitrarily, which not only provided opportunities for corruption but also increased the burden on business. The FGF reforms eradicated lots of illegal fees and assisted businesses with tax cuts, allowing businesses to operate in friendlier circumstances. Second, government lowered market entry costs so that new enterprises and self-employed businesses could start up more easily. Previously, businesses had to apply for both a business license and various industry-specific permits simultaneously (e.g. a food production permit for the food and beverage industry), before they could kick off their businesses, which delayed their opening and increased their cost tremendously. The FGF reforms separated the initial permits from the business license, allowing businesses to register and begin operating as separate stages. The FGF reforms also promoted the all-in-one identification approach, which integrates the business license, certificates of organisation codes (e.g. industry statistical codes) and taxation registration, among others, into one license number, the ID of each business, making it easier for cross-agency data sharing and business interoperation.

Third, the FGF reforms focus on improving the environment for doing business and government–business relations. Government agencies previously focused mainly on reviewing and approving who should be allowed to enter the market (e.g. business registration), while the operational and post-operational oversight (e.g. tax reporting, market regulations) has been ignored or overlooked. The criteria for market entry were not well designed or applied consistently, and businesses were not regulated appropriately once they entered the market. In other words, government agencies were adept at selling ‘tickets’ to enter the market, while their regulatory capacities in maintaining the rules of the market were weak.

Government–business relations were complicated and the rules applied subjectively: the FGF reforms are also aimed to make government interact with business in a close and clean way. Closeness means government should be responsive to business demands, and civil servants should sympathise with and pay attention to businesses. Cleanness means government must be honest and corruption-free, and businesses must not offer bribes for policy favouritism. The FGF reforms emphasise regulatory innovations helping rebalance relations between government and business. Previously, businesses were often selected arbitrarily, and regulatory enforcement involved rent-seeking and corruption. For instance, enterprises with close connections to government agencies and officials were sheltered from regulations. An oversight model of random inspection and public reporting has been introduced in the FGF reforms, where enterprises are randomly sampled, regulatory officials are randomly appointed, and the regulatory reports are publicly circulated. Also, a credit-based regulation system is being implemented in the FGF reforms, where credits for meeting regulatory requirements are aggregated through various sources and are used as a risk management approach to sampling who should be inspected. These and other measures help clean the government–business relations and improve the quality of regulatory practices.

Key initiatives (3): Public service delivery

The third and last component of the FGF reforms is to improve and innovate public service delivery through measures such as business process simplification, the reduction of red tape and redundant procedures, digitalisation and integration. Thanks to the increasing penetration and use of digital technologies such as smart phones, mobile internet, big data analytics and artificial intelligence, public services are being increasingly

digitalised, simplified and integrated, and the experiences of citizens and businesses have been significantly improved (Ma et al. 2021; Zheng and Ma 2021).

The Internet Plus Government Services initiative, part of China's 'Internet +' strategy (Jing and Li 2018), is core to the FGF reforms. Without the engagement of various digital technologies, the intended purposes of the FGF reforms would not be possible. The administrative review and approval system reforms in the 1990s and 2000s had mixed success, partly due to the lack of the technological supports that are common nowadays. For instance, previously people had to have their identity verified and had to visit government agencies or administrative service centres in person. The use of facial recognition technology, automatic machines and robots helps simplify this process, and people no longer have to visit government agencies in person to prove their identity. The integration of administrative services, particularly the nationwide and cross-provincial one-stop service platform, has significantly reduced the administrative burden of rural migrant workers in particular: previously they had to move between hometown and workplace provinces for administrative affairs simply to renew their ID.

Since early 2020, the COVID-19 pandemic has accelerated the digitalisation of public services, and the 'health code' is a typical case (Shi et al. 2021). The health code is an app co-developed by government agencies and internet titans, which can digitally trace close contacts and infection chains. While many close contact tracing applications developed in other countries have failed, the health code has worked well in China's fight against the COVID-19 pandemic.

Case study: The once-only reform

The 'visit once' or 'once-only' reform is a typical example of the FGF reforms. It was first piloted in Zhejiang province and then implemented across China (Huang and Yu 2019; Gao and Tan 2020). Previously citizens and businesses had to visit government agencies or administrative service centres several times to have a typical business or personal matter approved. For instance, people may first come to find out about the procedures and processes and collect the forms to be completed, and then come back to submit the required forms. Often the completed forms might not be fully in line with government requirements, and people had to come back again. If the matter concerned multiple government agencies in different locations, people would have to be psychologically prepared for the long struggle of

going back and forth. In some cases, civil servants might collude with agents to set barriers to administrative review and approval, forcing people to pay them for approval—a form of corruption (Zhang and Rosenbloom 2018; Zhang et al. 2021).

The once-only reform aims to cut citizens' and businesses' legwork in their interactions with government through government restructuring and business process reengineering. Previously, people had to visit multiple doors of government agencies or various windows of administrative service centres, so the first step has been to consolidate these into one-stop service centres installed with comprehensive portals catering to a wide range of inquiries and requests. No matter the kind of request, people can visit any portal, and their requests can be handled. The administrative burden of verifying people's identity, collecting information, processing forms, etc. are transferred from citizens and businesses to the government. To limit the resulting administrative burden on government and to make the reform possible, government has leveraged digital technologies to simplify the processes of administrative approval.

The once-only reform redefined what is one deal and what is one time. For instance, the birth of a baby involves a range of administrative matters for a family, which has to deal with various agencies at different administrative levels and in different jurisdictions: to register with a hospital, to be vaccinated, to register the household, to apply for maternity insurance for the mother and medical insurance for the baby etc. Previously people had to visit each of the different agencies concerned, often multiple times, and the whole administrative burden was very high. For first-time parents who are struggling with a whole new life with a crying baby, the frictions involved in dealing with various agencies might even frustrate them to the point of regretting the decision to have a baby, notwithstanding how important this is both to the family and to a country with lingering low fertility.

For each task, people can now visit government one time. The whole administrative process after having a baby now involves just one administrative deal, and the FGF reform aimed to ensure that people visit government services a maximum of one time. That is what the once-only reform has to achieve, and it is meeting the target through the use of multipurpose service stations and the sharing of identity/certification data across levels, regions and agencies. For instance, the use of facial recognition enables people's identities to be verified online, and their personal and business data authorised and safely shared among pertinent agencies for

verification. Similarly, for the start up of a barber shop or convenience store, the once-only reform also treats that process as one deal, so people should only need to visit government a maximum of one time. Local governments are developing administrative service packages for industries such as restaurants, and the administrative burden for entrepreneurs to start new businesses is being substantially reduced.

Discussion

Key challenges of service delivery

The FGF reforms are meeting their purposes of improving public services and the business environment, but they also face huge challenges in their current and future endeavours. First, the FGF reforms are primarily driven by digital technologies, but the digital divide in China makes social inequity a big concern. The internet penetration rate in China is 71.6 percent (in 2021), though 99.6 per cent of the population use smart phones. The share of urban residents using internet is 78.3 per cent, but it is only 59.2 per cent for rural residents. The barriers for the elderly and disabled people to use the internet for administrative services is still a big challenge, despite government attempts to address this persistent problem.

Second, the bureau of administrative review and approval is helping to consolidate the bureaucracy and streamline state–citizen interactions, but coordination between approvals and ongoing regulation is problematic. Approval and regulation were previously controlled by each functional agency, but they are now separated into the bureau of administrative review and approval and the functional agency. The data sharing and functional coordination is challenging, because agencies have to be held accountable for practices that are now shared across agencies. Also, only the bureau of administrative review and approval has the authority to approve administrative requests, and its monopoly over such administrative authority might breed its own corruption without appropriate checks and balances.

Third, the government–business relations in digital government are complicated, and the engagement of internet titans makes the FGF reforms themselves susceptible to exploitation, corruption and cybersecurity concerns. The automation and robotisation of administrative approval on the one hand has improved people’s service experience, but on the other

hand escalates the risks of sensitive data leakage. The missing links across agencies, levels and regions might partly be attributable to the internet titans behind the scenes, and competition between them in the market of digital government may be denying the possibility of more advanced and integrated applications.

Fourth, it is imperative to consider the sustainability of the FGF reforms. The administrative burden might have shifted from the side of citizens and businesses to the side of government, but civil servants may be reluctant to deepen the FGF reforms if their burden cannot be contained. Particularly for agencies at the grassroots level, their administrative burden has not so far been reduced despite the delegation of authority from the top. The possible misdirection of the FGF reforms is also relevant, because many local governments pay attention solely to the speed, timeliness or efficiency of administrative approval (e.g. automatic approval in seconds) rather than the substance of the claim. Few consider seriously the outcomes of the FGF reforms beyond immediate efficiency.

The performance of the FGF reforms is currently welcomed by the public, but the new government service evaluation system (*haochaping*) has not yet met government expectations. The system is intended to track and use service feedback for service improvement, and businesses and the public can rate service quality easily. The evaluations are timely, traceable and precise, and government can leverage big data analytics to diagnose performance gaps and identify paths to performance improvement, but citizens and businesses have so far been reluctant or not accustomed to such evaluations, and the quality of performance data is poor (Wang and Ma 2022). Also, the use of big data analytics, artificial intelligence, blockchain and other disruptive technologies in the FGF reforms may involve cybersecurity risks such as privacy leakage and digital inequity (Henman 2020), and it is important to develop digitally inclusive and responsive services and regulations.

Administrative reforms in China: Past, present and future

To what extent are the FGF reforms different from past waves of administrative reforms in China? The FGF reforms are a people-centric, technology-driven movement to transform the government itself and the approaches it uses to get things done. The FGF reforms are not only about administrative reforms, but also involve governance transformation (Jing 2021). The Xi administration is highlighting the imperative to

modernise the state governance system and improve state governance capacity, and the FGF reforms are an important component of its modernisation agenda. Prior reforms were often called ‘crossing the river by touching the stones’, which means they involved processes of ‘muddling-through’. The current reform agenda has a much firmer top-level design, meaning the reforms have first been designed by the top decision-makers and then implemented at the local level. The FGF reforms adopt a whole-of-government approach in reform design and implementation and use the leverage of digital technologies to facilitate its processes. In comparison to prior reform waves, the FGF reforms are more comprehensive, in-depth and potentially effective.

Are the FGF reforms a hybrid of NPM and post-NPM agendas? The analyses of this chapter show that the FGF reforms do involve a hybrid of past and emerging reform waves including NPM and post-NPM reform or new public governance. The businesses and citizens are supported by government through more efficient and effective approaches and they utilise the private market, which is exactly what the NPM movement advocates. The government is also organised as a whole to coordinate across agencies, levels and jurisdictions, which is a landmark of the post-NPM approach. Other examples of the FGF reforms demonstrate either NPM or post-NPM elements, making it a hybridised form, similar to prior waves of administrative reforms in China (Christensen and Fan 2016; Tian and Christensen 2019). Given the digital transformation of government due to the ubiquitous and penetrative utilisation of digital technologies, the FGF reforms are also embracing digital-era governance (Dunleavy et al. 2006) or even an open governance paradigm (Meijer et al. 2019).

Are the FGF reforms diverging from administrative reforms in other countries in recent decades? Similar to its prior reform endeavours, China is learning from the West in designing the FGF reforms, but they also apply indigenous experiments and more elaborate technological innovations, as well as adapting the reforms to fit Chinese characteristics. The FGF reforms might not represent a ‘China model’, but they can still be examined in a comparative perspective and it is relevant to explore their Chinese characteristics and possible global implications. For instance, it might be helpful to disaggregate the FGF reforms into their different components and compare these with counterparts in other contexts separately.

This case study also informs observers about China's real political-administrative framework, about how ideas drawn extensively from Western experience have been adapted to fit with China's novel institutional arrangements including its party-state system, which in turn is also being influenced, at least at the margins, by those ideas.

The practices of recent administrative reforms in China, specifically the FGF reforms, reviewed briefly in this chapter, provide an important case for public administration research. While the FGF reforms have been extensively pursued across China, important variations across agencies and localities merit further research. Future studies should pay close attention to the evolution of the FGF reforms and dig further into their processes and consequences. For instance, to what extent have the FGF reforms reshaped relations within government (e.g. central-local, inter-agency, inter-jurisdictional) or between government and others (e.g. market, society) and affected the overall party-state? Cross-country comparisons could also be pursued to identify divergences and convergences in many aspects of the FGF reforms, including but not limited to regulatory reforms, public service delivery innovations, and administrative decentralisation.

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The service delivery reform agenda for the Australian Commonwealth today

Gordon de Brouwer¹

Abstract

State governments in Australia have direct responsibility for the delivery of many public services, but the Commonwealth has increasingly looked to influence those services and their delivery, drawing on its revenue-raising capacity. The Commonwealth has also been steadily widening the integration of its own services, including social security and Medicare, to reduce complexity for people and to improve effectiveness and efficiency.

The states have been improving service delivery, identifying whole-of-government priorities and using technology to improve integration. Some have drawn on New Zealand experience with ‘social investment’ and wellbeing budgets to improve the social and economic outcomes for disadvantaged groups.

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A 2019 review of the Australian Public Service recommended further measures to improve service delivery, including by integrating Commonwealth and state programs and building on the work of one of the states. Commonwealth governments have indicated their willingness to explore such an agenda which, while involving an idealistic vision, represents a practical call for governments in the federation not to be limited by jurisdictional interests or overwhelmed by the complications of federalism but to experiment with shared data, regional trials and investments in technology. There are new opportunities to seize, but also significant risks to be managed.

Keywords: service delivery; public sector reform; Australian Commonwealth Government; user complexity.

Introduction

Service delivery is a major priority of government in Australia, both at the state/territory and the Commonwealth or federal level, and it has been for decades.

Five themes recur over recent decades: how to put people rather than organisational convenience at the centre of service delivery; managing complexity—in terms of the different needs of different people, the range of services available and the administrative arrangements that underpin them; the impact and promise of new technology; grappling with different cultures and siloes in public administration; and the interaction of the different levels of government in the federation, with their varying legal responsibilities, policy and political priorities and approaches to service delivery.

This chapter outlines how the service delivery agenda has evolved at the federal level in Australia. It starts with the constitutional and legislative responsibilities for service delivery in the federation, and the different emphases of state/territory and Commonwealth public administration. It traces through three decades of determined Commonwealth effort to refocus service delivery on the people served and to reduce complexities, while grappling with rapidly changing technology and a broadening of policy responsibilities. It argues that New Zealand and particular states in the federation, especially New South Wales, have influenced recent Commonwealth approaches to service delivery.

The Commonwealth Government's 2019 Independent Review of the Australian Public Service highlighted the enormous opportunity to improve service delivery offered by digital transformation, big data, closer and real collaboration with the community, stronger connections between government agencies, and improved capability within the Australian Public Service (APS). The Morrison Government's response to the review stressed better services, getting delivery right and connecting the APS to all Australians as key elements of its priorities. This response was actioned most notably by the creation of a new agency, *Services Australia*, to better coordinate and improve service delivery of Australian Government services and improve outcomes.

The chapter also explores the impact of the COVID-19 pandemic—in accelerating reform of service delivery, broadening the number of Australians who rely on Australian Government services, rapidly expanding data to inform evidence-based decision-making and service delivery, and reorganising the work arrangements of public servants to flexibly meet the public's needs.

The chapter closes by noting the challenges in achieving service delivery reform and three emerging opportunities or challenges for the next decade of service delivery. The first is further integrating Commonwealth and state/territory service delivery to better meet the needs of individuals, especially those at high risk. The second is working with and utilising private sector technology, service providers and data to improve outcomes for people. Neither of these opportunities will happen without resolve and planning, and each has its challenges. The third is to learn from policy failures and retain human oversight and judgement, ethics and independent scrutiny and transparency in the use of technology and data.

Some institutional background on service delivery

It is useful to start with two bits of background that help explain the priorities and trends in service delivery in Australia.

First, the services provided by government are extensive and diverse, and different services are provided by different levels of government in the Australian federation.

At the Commonwealth or national government level, the main services provided or directly funded are social security pensions, benefits and allowances, universal health insurance (Medicare), aged care and disability services, child care, employment services, Indigenous support services and migrant services—and defence and taxation. At the state or territory government level, the main services are the provision of public hospitals and schools, public transport and roads, police and emergency services, water and energy, and courts and justice. At the local government level, the main services are local-area property services including local planning and roads, stormwater services, parks and garbage collection. States and territories do have some independent sources of revenue, such as property and transaction taxes, but they depend heavily on the federal government for specific and general-purpose payments, which allows the Commonwealth to take a direct interest in state and territory expenditure.

The scale of Commonwealth funding of services is significant. For example, over the past two decades, Commonwealth Government expenditure has averaged 25.1 per cent of GDP (noting that total Commonwealth, state and territory government expenditure has averaged about 35 per cent of GDP). Commonwealth Government expenditure rose temporarily to 32.9 per cent of GDP (ABS 2022; see also Hawkins n.d.) in 2020–21 due to the government's response to the COVID pandemic, largely because of increased need for government financial support services.

Second, the states and territories have traditionally been at the heart of service delivery in Australia but the federal government has played a growing and influential role in the postwar period. This distinction is most clearly seen in the legislation that establishes the public service at the state level and at the Commonwealth level.

The *Government Sector Employment Act 2013*(NSW) (the GSE Act),² for example, includes not just those in general state administration but police and teachers, nurses and doctors in state institutions. The first purpose stated in the objects of the GSE Act is a government sector 'that is efficient and effective in serving the Government in the delivery of services to the people of NSW' (section 4(a)(i)). The Act then sets out values and institutions to ensure and govern this. The establishing legislation in other states is similar, starting with service delivery in setting out the responsibilities of the public service.

2 Available at: legislation.nsw.gov.au/view/whole/html/inforce/current/act-2013-040.

By way of modest contrast, the *Public Service Act 1999* (Cth) that governs the APS is couched in high-level terms of establishing ‘an apolitical public service that is efficient and effective in serving the Government, the Parliament and the Australian public’ (s 3), with specified values around being committed to professional, objective, innovative and efficient service, being ethical, being respectful, being accountable and being impartial (including in giving frank, honest, timely and evidence-based advice) (s 10). The word ‘service’ occurs 65 times in the Commonwealth Act but the term ‘service delivery’ appears only once, in s 35(3)(iii) in relation to the capabilities of senior officers.

In Commonwealth public administration, service delivery is positioned along with other priorities like policy advice, program delivery, professional expertise and regulatory administration. In state public administration, service delivery is typically the fulcrum. This does not mean that service delivery is unimportant, or less important, at the federal level. The Commonwealth provides significant funding for state services, which gives it leverage. The Commonwealth’s policy interests and its own priorities have steadily expanded. The Commonwealth has grown as a major provider of services through the tax and transfer system and as a key funder and regulator of areas such as aged care, early childhood education, private schools and universities, which overlap with the states’ interests in direct service delivery. Indeed, as outlined below, recent federal governments have placed increasing emphasis on service delivery.

Three decades of trying to reduce complexity in government services and improve outcomes

The ever-expanding range of government services and the need for different forms of delivery—from face-to-face contact, call centre queries or internet-based transactions—have increased complexity for users of those services. Governments have long recognised this and sought ways to reduce complexity, improve the effectiveness of services in improving the lives of people, and find efficiencies.

An early step to reduce user complexity, improve outcomes and seize efficiencies was to identify key services within a jurisdiction and bring them together in a single delivery agency. At the federal level, the establishment of Centrelink by the Howard Government in 1997 was a major, and exciting, step forward.

The establishment of Centrelink reframed both service delivery and social policy in Australia (Halligan 2008), by creating a standalone agency with the mandate to deliver family, retirement, disability, youth and employment payments and services to the eligible public on behalf of the social policy departments of state (Halligan 2008). By the mid-2000s, Centrelink operated 320 service centres for 10 million Australians with annual payments of about AUD60 billion, and it did so through service provider agreements with 25 government agencies.

The integration and professionalisation of government-provided welfare payments and services was an opportunity to focus more holistically on the individual and their needs, as well as to strengthen public sector governance by the use of broad-based decision-making boards and explicit service delivery mandates (such as Business Partnership Agreements). Terms like ‘tell your story once’, ‘personalised service’, ‘customers’, ‘citizen-centricity’ and ‘service delivery based on life events’ abound in Halligan’s history of Centrelink (*The Centrelink Experiment: Innovation in Service Delivery*, ANU Press 2008). Their use points to the social policy priorities of the day, an ever-increasing focus on delivery as part of effective policymaking, and a major driver of cultural change within government departments and agencies. These terms have been in regular use and continue today (although sometimes it feels that the people using them have discovered them for the first time).

Over time, the imperative was to integrate a broader range of Commonwealth services. For example, independent entities like Centrelink (for welfare services and payments) and Medicare Australia (health services and payments) were brought together under a Department of Human Services in October 2004. The service brands were retained as agencies attached to the department with some autonomy and they were subject to policy oversight by lead policy departments—like the Employment Department and Social Services Department for Centrelink or the Health Department for Medicare.

The pressure for better integration in service delivery by the Commonwealth Government has continued over time, with steps taken including:

- steadily co-locating the various delivery agencies to enhance the customer/client experience and increase operational efficiency,
- reducing the autonomy of individual delivery agencies (whose leadership might resist changes that it did not agree with) and increasing consistency between constituent agencies (this included later merging the agencies into the Department of Human Services),
- lifting cooperation between policy departments that lead the various service delivery functions, including through committees of relevant portfolio department heads and Cabinet committees, and with the minister for human services sometimes being a member of the Cabinet,
- broadening service delivery mechanisms, especially by expanding call centres (staffed by trained professionals who could address multiple inquiries) and by direct internet transactions through the creation of a single government internet portal, My.Gov.au,
- using technology and client data better to deliver services and understand needs and demands,
- focusing more on the social and economic outcomes of clients, with people-centred policy and budget processes being used to drive a policy agenda by which government services are viewed and delivered holistically for the individual, and
- the creation of a Digital Transformation Agency in 2016 to lead transformation across the Commonwealth public sector, including in service delivery, and the first whole-of-government digital strategy in 2018.

While these changes have been important, their impact has been less than hoped for because of the sheer complexity of the social welfare payments and information system. This system has grown over decades, often built on legacy technology and software that has become out of date, could not interact with other parts of the system and periodically just broke down. To quote an article from 2016:

Overhauling the welfare payments legacy system is a labyrinthine undertaking and an incredibly sensitive task. There are 30 million lines of code to disentangle and 40 different core payments, along with 38 add-ons. (Sanson 2016)

With this concern in mind, the Commonwealth Government announced a billion-dollar seven-year program in 2015 to completely overhaul the social welfare payments system—the Welfare Payments Infrastructure Transformation (WIPT)—for a contemporary online claims, processing and services. Such transformation takes time and care. To quote from the same article:

Delays or stuff-ups could affect the benefit payments of millions of people, many of whom might be vulnerable and living hand-to-mouth, and work must also be managed so that it can be rolled out gradually while keeping the current system going.

WIPT is delivering but is still in process in 2021 (Services Australia 2022).

The need for deep change in service delivery was a recurring theme in the 2010s, motivated by restatements that the deeper purpose of government service delivery is to improve the quality of people's lives. The imperative for citizen-centred government was a main philosophical drive in the *2010 Blueprint for the Reform of Australian Public Administration* (AGRAGA 2010), prepared for Prime Minister Rudd. The first of four reform priorities identified in that report was 'forging a stronger relationship with citizens through better delivery of services and through greater involvement of citizens in their government'. A longer quote shows the mood of the time:

First, a world-class public service must meet the needs of citizens by providing high quality, tailored public services and by engaging citizens in the design and development of services and policy. In an era of rapid technological advancements, customers expect greater service quality from the public sector, just as they expect it from business.

At the same time, advances in information technology enable governments to not only deliver services in a more citizen-friendly manner, but to incorporate citizens' ideas and perspectives into service delivery.

There are also opportunities to improve the way the APS incorporates non-government expertise and citizens' views into the design of services and policy. (AGRAGA 2010:8)

An early and strong *political* expression of this mood occurred in New Zealand, where the John Key–Bill English National governments in the 2010s focused explicitly on service delivery as a form of social investment to drive outcomes that improve the lives of New Zealanders, quantified and

measured transparently against data. This was extended and institutionalised in the Jacinta Ardern Labour Government’s Wellbeing Budgeting from 2017. In one sense, this reform is more straightforward in New Zealand because it has a unitary system of government with a single house of parliament, unlike Australia’s federation, overlapping roles and responsibilities between the Commonwealth and states, and two houses of federal parliament. Yet it also shows a willingness in New Zealand to try new approaches to framing and implementing policy, and perhaps too often in Australia using the complications of federalism as an excuse not to try an idea.

The impact of these approaches from New Zealand on Australia was most obvious at the level of the states and territories, in terms of both major policy reform and institutional reform.

Consider the example of New South Wales, Australia’s largest state.

The NSW policy reform over the last decade has been centred on the Premier’s Priorities—the explicit identification of a small number of outcomes, around 10, that really matter to people in the state, with extensive reporting, transparency and accountability, and backed by new data enabled by digital technology. These captured the personal preferences and values of the premier of the day, as the premiership passed from Barry O’Farrell to Mike Baird to Gladys Berejiklian. Mike Baird had 30 priorities—including reducing domestic violence, reducing reoffending, improving school education attainment outcomes, reducing childhood obesity and reducing wait times in hospital emergency rooms—with a live reporting dashboard (Nicholls 2015).

The institutional reform that accompanied the policy reform was to bring state service delivery into one agency, Service NSW.³ Premier Barry O’Farrell announced the creation of a single state service delivery agency in June 2013, with the purpose of integrating all state services in one institution delivered with a deep culture of customer service (Service NSW n.d.). These institutional changes were followed up in July 2019, after the return of the Berejiklian Government, with the creation of a mega Department of Customer Service, a central agency—that is, a department of state on par in status with the Premier’s Department and the Treasury Department—with the express mandate to establish the customer at the centre of *all* NSW

3 See: www.service.nsw.gov.au/about-us.

government programs and initiatives, deliver the digital experience, and use data and behavioural insights to improve customer experience. It was accompanied by a reduction in the number of government departments.

These changes set the scene for further changes in service delivery by the Commonwealth Government and, indeed, what may happen at the national level of government over the next few years.

The Government's APS reform agenda: Delivering for Australians

Prime Minister Turnbull commissioned an Independent Review of the Australian Public Service, led by David Thodey, in May 2018, to ensure that the APS is fit for purpose for the coming decades (IRAPS 2019).⁴ The terms of reference of the review were wide ranging, motivated by a sense of deep change in the world and of the opportunity from digital technology and data to transform the way government works and serves the Australian people. The report was delivered in September 2019 to Prime Minister Morrison, and the government's response was released in December 2019.

The Thodey Review stressed that the Australian people must be at the centre of how the APS performs its legislated obligation to serve the government, the parliament and the public. The review's analysis and recommendations highlighted the enormous opportunity to improve service delivery offered by digital transformation, big data, closer and real collaboration with the community, stronger connections between government agencies, real cooperation between the Commonwealth and state and territory governments, and improved capability within the APS. These are a contemporary statement of recurring themes of public administration reform over the decades, and indeed they echo key aspects of the seminal 1976 Report of the Royal Commission on Australian Government Administration (Coombs Review) and subsequent reviews.

The Thodey Review specifically recommended that the government deliver simple, seamless people-focused government services, integrated with states, territories and other providers. It outlined what that would involve and provided implementation guidance. This recommendation is set out in full

4 As well as David Thodey, the independent panel included Glyn Davis, Belinda Hutchison, Maile Carnegie, Alison Watkins and Gordon de Brouwer, the author of this article.

in Appendix 1. The review drew on the rich history and themes of service delivery of past decades. The Review Panel was motivated by the success of NSW's experience, advances in technology and data, and a sense that political will to cooperate could change the quality of people's experience of government services. Service delivery could—and should—be based on the needs of the individual rather than the idiosyncrasies and particularities of the federation and of departmental structures at each level of government; the opportunity cost of not moving to fully integrated service delivery is just becoming more and more obvious.

This was always understood to be an idealistic vision, and it was meant by the Review Panel to be a call to governments in the federation not to be limited by jurisdictional interests or overwhelmed by the complications of federalism in thinking about the interests of their people. The vision was by no means thought to be easy. The panel was very aware of the fact that the Abbott Government in 2014 had commissioned work to streamline the federation to make it more workable only for that work to disappear because it proved too difficult. Jurisdictions in the federation (although less so for territories) are constitutionally sovereign entities with enshrined rights and responsibilities, and have inevitable—and often entirely proper—differences in perspective and priority. The intention of the Review Panel was to encourage, within that complex system, public servants and ministers to experiment and work out ways to strengthen cohesion in service delivery by different levels of government to people in a particular place. The fact that Service NSW, for example, typically holds Services Australia documentation for its clients raises the question of whether the state and federal systems could be better integrated digitally, in call centres or in particular locations. The implementation path set out by the Thodey Review focused on small steps and regional trials in integration between like-minded jurisdictions, to build trust and confidence and test whether integrated systems could work in practice: small steps could lead to material changes in the experience people have of government.

The Review Panel highlighted the NSW experience. In part, it did so because the Commonwealth and NSW governments were both centre-right (Liberal–National Coalition) governments with a prime minister from NSW. But it was also because NSW is the jurisdiction seen to be doing the most on improving how people and business experience government. The focus on NSW was not intended to understate changes in other states and territories. Indeed, the focus on people being at the centre of service delivery has been a theme in all centre-left (Labor) led state and territory governments.

The review had other recommendations about investment in technology and capital, data, governance and administrative arrangements, and capability and skills necessary to achieve this vision of integrated people-focused service delivery. Many of these have pursued in some form.

The Morrison Government's statement on APS reform clearly set out its priorities. The title of the document, *Delivering for Australians* (DPMC 2019), put the focus fair and square on service delivery. In May 2019, the government announced it would replace the Department of Human Services with a new entity, Services Australia. At the same time as it released its statement on the public service, the government also announced a reduction in the number of government portfolio departments from 18 to 14 and that Services Australia would become an executive agency within the Social Services Department. Services Australia formally replaced the Department of Human Services on 1 February 2020.

Looking at the agenda on service delivery, there are two key observations to be made about the contemporary mood.

First, while the Morrison Government expressly affirmed the role in the Westminster system of parliamentary democracy of the public service providing advice on policy and administration, it gave significantly more prominence and priority to service delivery—and certainly more than is stated in the Public Service Act as outlined at the start of this article. Indeed, three of the six main themes in the government's statement—'Better Services', 'Getting Delivery Right', 'Connecting the APS to all Australians'—are about service delivery, and one of the six—'Adapting to Change'—is about the digital transformation required to achieve that.⁵ It stated that the 'Government respects the experience, professionalism and capability of the public service, both in policy advice and implementation' but that it is 'Ministers who provide policy leadership and direction' (DPMC 2019:4). This was consistent with the prime minister's public address on 1 February 2021 that 2021 was all about delivery.

Second, the Commonwealth Government's approach drew heavily on the highly successful NSW approach, from the entity's name and focus on people to the reduction in the number of government departments designed to improve coordination. While Prime Minister Morrison reduced the number of departments, however, he did not reduce the number of

5 The other two themes are 'Clear Roles and Priorities' and 'Reinforcing Integrity'.

ministers or the size of the Cabinet as NSW did, meaning that some departments have multiple ministers and coordination is a major challenge. Indeed, some departments have seven or eight ministers, some with similar Cabinet seniority but different political and policy views, making advising, implementing and accountability very difficult.

It is also worth noting that Services Australia was established as an executive agency under the Public Service Act rather than as a statutory agency under its own legislation. This gives the minister significantly greater direct influence over its operations. The establishment of an executive agency does not require legislation, so the objects or purposes of the body are not set out in legislation but are policy decisions of the minister. Moreover, the head of an executive agency can be appointed or terminated by the responsible minister at any time (and only requires 'a report' by the relevant secretary on the matter), which can only make the agency head more responsive to the minister's immediate interests and views. Just as service delivery has more profile and greater priority, the government also has more direct influence and control over it.

Services Australia being an executive agency may serve the immediate interest of the government in ensuring it gets what it wants in terms of service delivery but it risks weakening capability over time. First, it might make senior public servants more cautious in providing advice that a government does not want to hear and hence manage risks less well and undermine intended outcomes and the government's standing. And, second, because the purposes of an executive agency are not grounded in legislation, they can change over time, even subtly and without transparency, and so it is harder to ensure accountability to the parliament, which increases the risk of policy and implementation mistakes.

Impact of the COVID-19 pandemic

The pandemic has had four significant impacts on service delivery.

First, a lot more people, and more people from across different parts of society, have come to depend on government services and income support. Before the pandemic about half a million people in a workforce of 13 million were unemployed, and the policy focus was often preparing and encouraging them to work (the unemployment benefit previously known as Newstart was renamed JobSeeker in 2020). This rose to about 1¼ million

people in the first half of 2020 as parts of the economy shut down. The number receiving support is much bigger if people whose job was funded by special pandemic wage subsidies (under a program called JobKeeper) are included, with a peak of 3½ million people receiving that wage subsidy at some stage (Hayne 2020). Recovery was initially strong but periodic lockdowns and sustained national border closures mean that the economic hit in hospitality, tourism and education continues to be hard, including for many small businesses which are typically self-reliant. This all means that the general experience of, and need for, government services has been and remains much wider than before. It perhaps also conditions a more positive view about people's need for government services rather than as reflecting unacceptable behaviour such as shirking work and social responsibilities.

Second, the pandemic really shifted the game in the value and appreciation of data. The sheer diffusion of digital technology means that there is now data about most social and economic interactions, and that data can be used to understand almost in real time what is happening, who needs what, who is doing what, and what the impacts are.

Consider a few examples. The government used an integrated data methodology (the Business Longitudinal Analysis Data Environment, BLADE)⁶ to bring together data on Australian businesses using business surveys, regulatory information and tax payment data, along with private data provided by banks, accounting software providers and others, to understand the impact of the pandemic on Australian business. Similarly, the government brought together a wealth of social services program and other data together in the Multi-Agency Integrated Data Project (MADIP) to understand the impact on individuals, for use by officials and academics.⁷ At the same time, intergovernmental bodies like the Australian Institute of Health and Welfare were invaluable in assembling data on physical and mental health from Commonwealth and state government agencies to give an almost real-time picture of people's health to inform weekly meetings of National Cabinet (the forum of the prime minister, state premiers and territory chief ministers).

6 See www.industry.gov.au/data-and-publications/business-longitudinal-analysis-data-environment-blade.

7 See www.abs.gov.au/websitedbs/d3310114.nsf/home/statistical+data+integration+-+access+to+blade+and+madip+data.

For service delivery, data access and integration mean that not only can a person's various needs be better understood, but that data analysis can inform what works and what does not, and how the specific needs of a person or community can best be addressed. Good data and data analysis can be directly useful to ministers and governments.

There is a huge work agenda developing around the collection of data, protecting the privacy and security of data and information (including developing technology and techniques such as homomorphic encryption that enable analytics on still-encrypted big data), sharing data for analytic and policy purposes, developing data relevant to priority policy outcomes rather than just transactions, sharing data between different jurisdictions (both nationally and internationally), and sharing data between government, business and non-government entities like universities. In Australia, the creation in 2020 of a Data Profession within the Australian Public Service, led by the head of the Australian Bureau of Statistics, and of a Digital Profession, led by the head of the Digital Transformation Agency, represents a significant advance in developing links, relationships and capabilities. And the *Digital Availability and Transparency Act 2022* (Cth) is a major step in enabling consistent data sharing, added safeguards for privacy and abuse of data, and authority and a legal framework to share data between entities.

Third, governments' responses to the pandemic required agility and flexibility from the various public services, and the sense is that they generally responded very well. Flexibility is evident in two ways. The demand for Commonwealth government services rose, and so staff were moved from policy, program or other operational areas into service delivery—about 2,500 Commonwealth public servants shifted to service delivery in Services Australia, which has a workforce of about 30,000. This was overseen by a coordinating committee of departmental chief operating officers led by the Australian Public Service Commission and the Prime Minister's Department. Flexibility was also shown in the ability of the public service to continue to operate effectively across the range of government activities even when workplaces were closed or had heavily restricted access, with many public servants continuing to do their job—and do it well—from home. The ongoing issue is retaining that flexibility in the public service.

Fourth, the rise in Australians' trust through the pandemic in public institutions—government, media, non-government bodies and business—has been remarkable. According to the 2021 Edelman Trust Barometer, the Australian public has shifted from being characterised as 'not trusting'

(47/100) in institutions in January 2020 to ‘trusting’ (59/100) in January 2021, with Australian recording the largest rise in trust among the 27 countries surveyed (Edelman n.d.). Trust in government in Australia rose a staggering 17 percentage points, from 44 to 61 per cent of people sampled—along with an 8-point rise for NGOs, 11 for business and 12 for media. In terms of trust in government, Australia is similar to Canada, Germany and Malaysia. This rise in trust is important, not just as a signal of a shift towards a more cohesive and functional society, but because it provides a strong basis on which government can work with the public in delivering services, especially those that rely on the use of personal data from a range of sources for their effectiveness. The caution is, of course, that trust can be lost. One of the novel features in 2021’s Edelman analysis is that trust in many governments around the world rose at the start of the pandemic but was often lost mid-2020 when they lost control in second and third waves.

Locking in the gains and some next steps

It is clear that service delivery matters and that there is a deep and active work program on service delivery.

In thinking how service delivery evolves, there are three further issues that are worth raising.

The first is articulating and achieving the vision of effective service delivery. The emphasis on outcomes rather than just processes is welcome. Government services are ultimately about protecting and improving the lives of people. Various levels of government in Australia provide an array of services to the Australian people, and the vision articulated in the Thodey review remains that the complexity of federalism and of the structures of government at each level should not themselves be impediments to the quality and experience of service delivery to people (and businesses).

With technology where it is now, it is a political choice of governments in the Australian federation whether they ensure seamless, one-stop service provision to people or not. The use of National Cabinet—bringing the prime minister together with state premiers and territory chief ministers as the key national decision-making body in the pandemic—has shown that cooperative federalism *can* work and has inspired a new level of cooperation.

Single, unified and quality service delivery for people, regardless of jurisdiction, may be one way to achieve the vision of people being at the centre of service delivery by government.

A critical issue about integrated service delivery between the states and Commonwealth is whether there is political incentive to do so. The general assumption is that integrated service delivery would be led by the state or territory delivery agency, given the very wide range of state services and the proximity of a state to people. In this case, what is the incentive for a Commonwealth Government minister to give the kudos away for successful service delivery to its state equivalent but typically be blamed when things go wrong because they have not provided enough funds to the state? In short: no upside, all downside. In reality, however, ministers can create a political incentive. Part of the deal in agreeing to a system of integrated service delivery is that the Commonwealth Government sets (or leads in setting) some of the desired policy outcomes, something for which it can get direct credit. One of the lessons learned from Australia's experience with COVID-19 is that the public expects both levels of government to work together and rewards both levels for cooperating.⁸ It may be a viable political strategy for a Commonwealth minister to take a leading role in setting national policy objectives and hold the state to account. For the state to want to be the key integrated service delivery agency, it would have to be adequately financially resourced and know that funding was enshrined in Commonwealth–state financial arrangements and sustained.

The second forward-looking aspect that could drive better delivery of government services is the potential offered by business and not-for-profit institutions. During the pandemic, a range of businesses that hold significant data provided that de-identified data to inform government about what was happening. These businesses included banks, supermarkets, telecommunication companies and business services companies. Being able to integrate private data with de-identified government data (including personal and business tax and transfer payments) meant that government decision-makers could understand much better what was happening. This is just the start of the use of private data in enabling better delivery of government services.

⁸ This is one interpretation of the Australia and New Zealand School of Governance finding that Australians generally trusted both the Commonwealth and state/territory governments' response to the COVID-19 pandemic the same during 2020. See Goldfinch et al. (2021).

There are opportunities to make better use of an individual's own data to improve government service delivery and policy outcomes, particularly to benefit the individual. Data-driven experiences across the public and private sectors could create significant benefits for people and governments. Private companies can help bridge gaps in service delivery between the Commonwealth and state and territory governments and reduce administrative burdens on citizens. A powerful example is the Benefits finder facility of the Commonwealth Bank of Australia (CBA), one of the big four private commercial banks in Australia.⁹ The *Benefits finder* uses data to make it easier for customers to access government support. It organises and personalises hundreds of government benefits in one place and makes it easy to claim. It has resulted in more than 1 million new claims since its launch in September 2019. The CBA estimates that its customers accessed an additional AUD481 million through the facility in the year of the pandemic, and a 45 per cent improvement in satisfaction with government and the CBA.

Many banks capture and use an incredible amount of rich data to provide a valuable and secure banking service. This includes identity checks, geolocation and home address, utilities, concession cards and payments, financial status, family status and business ownership. The *Benefits finder* uses these attributes to match customers to government rebates or benefits based on eligibility criteria and probability, as well as to alert them to urgent support available in the event of a natural disaster in their geographical location.

Use of this innovative data leads to benefits at the customer/person level by reducing uncertainty and effort and improving outcomes. It also speaks more broadly to the huge potential of sharing data to help improve effectiveness in delivering better public services to save time and enable better access to financial support.

The potential benefits of working together go beyond faster policy response times, empowering individuals and saving them time and money. They extend to greater economic and social benefits, among which is improving the transparency and accountability of governments and partners for improved public trust.

9 See www.commbank.com.au/digital-banking/benefits-finder.html.

Now may be an opportune time to build on sharing data insights, as the COVID-19 pandemic has meant more people than ever are aware of and attentive to service implementation, and policymakers continue to seek the best evidence to support their decision-making.

The point is that many companies have verified identifiers for their customers, secure systems and a real-time accurate understanding of their customers' personal and financial circumstances. This can be used to ensure well-targeted delivery of government services, as in *Benefits finder*. And it could be used to rapidly and accurately make emergency payments to eligible people and businesses in need in natural disasters or other extreme situations.

The opportunities for private data exist in many areas other than traditional human services. They are also powerful in areas like sustainable land, water and energy management. For example, Telstra, which is Australia's largest telecommunications company, and Microsoft operate a Data Hub to help customers address problems they face (von Reventlow 2019). These digital services range from water and agriculture, to medical services, and to energy, and can fit particular regulatory and information systems in different jurisdictions. In this sense, private digital services mean that differences across the federation matter less.

The third forward-looking aspect is to be prudently aware of potential downsides and unintended consequences in the use of technology to solve policy challenges. Judgement, ethics and transparency are essential in the use of technology and data.

The Commonwealth's experience with Robodebt is a sobering lesson in the poor, possibly unethical, use of technology (Whiteford 2021). Concerned about possible overpayment of social security benefits, the government in 2016 authorised the Department of Social Services to develop the Online Compliance Intervention program (and its successors), which used an algorithm to match an individual's declared fortnightly income to receive a benefit with their average fortnightly income from their annual tax return in order to identify possible overpayment. In the case of an income mismatch, an official letter was automatically sent to the individual, without review by the department, requiring repayment (subject to interest) unless the individual could show that they had not been overpaid. This approach was highly controversial: the methodology generates an income discrepancy when an individual's fortnightly income varies, which is common for people

in part-time or casual employment (a methodology later described by the Federal Court as ‘irrational’); there was no human scrutiny of decisions; the onus of proof was reversed and put on the recipient; and the vulnerability of individuals at risk was exacerbated—some recipients paid back money that they did not owe, some suffered personal trauma and shame, and some had suicidal thoughts and tragically some committed suicide. After various parliamentary and ombudsman inquiries, court cases, a class action against the government and media scrutiny, the Commonwealth settled and agreed in 2021 to pay AUD112 million in compensation, refund more than AUD751 million on 470,000 robodebts (373,000 people), and cancel outstanding debt of AUD398 million.¹⁰

The case raises serious questions about the use of technology without human checks, of decision-makers taking steps which in retrospect are contrary to the law, the quality and frankness of advice by public servants, the use of ethics in advice and decision-making, and the effectiveness of Cabinet decision-making processes in drawing out and understanding risks. In the lead-up to the 21 May 2022 federal election, the Opposition at the time announced it would hold a Royal Commission into Robodebt.

Concluding comment

Service delivery has been identified as a priority for the Commonwealth Government for decades and it continues to be so. Indeed, service delivery is one of the primary areas in which the current government defines how it wants to be held to account and judged.

There are plenty of challenges in achieving this agenda. One is sustaining cooperation between jurisdictions in sharing data. Another is ensuring that technology works and that data are secure and safe. Another is avoiding unintended consequences that undermine the government being able to sustain delivery—for example, institutional design may seem arcane but the decision to make Services Australia an executive rather than a statutory agency risks it failing to give difficult advice to government and mistakes being made, loss of direction and weaker accountability for its actions.

10 See the settlement arrangements at: gordonlegal.com.au/robodebt-class-action/robodebt-settlement-faqs.

There are new opportunities to seize. There is scope—perhaps substantial scope—to improve how people and businesses experience service delivery through greater cooperation between jurisdictions. This may include greater integration of Commonwealth and state/territory services, even in one-stop shops, be they physical or digital. Cooperation between jurisdictions in service delivery should lift standards, quality and outcomes and not result in a fall to lowest common denominator. There is also a lot of yet-to-be-tapped potential to work with the private and not-for-profit sector in service delivery, in a way that protects privacy and maintains market competition. Yet as policy failures like Robodebt show, technology and data must be used with human judgement and oversight, independent review and scrutiny, and contestability, ethics and transparency in advice and decision-making.

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Appendix: Recommendation 16 on service delivery from the Independent Review of the Australian Public Service, 2019

Recommendation 16

Deliver simple and seamless government services, integrated with states, territories and other providers.

Government to commission Secretaries Board, working with Services Australia and the DTA, to develop a 2030 roadmap for services delivery guided by core principles:

- people at the centre of service delivery
- a single access point to all government services, and
- seamless experience for all users of digital, physical or telephone services.

Secretaries Board to support preparation of a roadmap and submit it to Government by end 2020.

Implementation guidance

- Prioritise, understand and address user pain points and expectations.
- Set ambition to integrate services seamlessly with other jurisdictions and private providers, and work collaboratively to get there. Provide a single digital access point with states and territories, with integrated call centres and storefronts playing a supportive role.
- Plan for a progressive roll-out, using trials and pilots.
- Focus first on simple, high-volume services then on more complex services including intensive case management. Over time integrate services for business and not-for-profit organisations, and areas such as natural resource management.
- Make product simplification part of the policy development process and use analytics to support policy and service design.
- Retain agency accountability for core systems and decision making, with detailed boundaries defined on a portfolio basis.

18

Coordinating government silos in Hong Kong

Ian Scott and Ting Gong¹

Abstract

The literature on silos in government often focuses on their failure to engage effectively in horizontal coordination. While this is often true, silo-dominant administrative systems may still find ways to overcome or prevent incoherence in government. The problem is not so much with the structure of silos but with the lack of effective coordination mechanisms between them. Therefore, it is important to identify what mechanisms may enable silos to work successfully with each other and under what conditions, to avoid the political and administrative costs of radical reform. Using Hong Kong examples, we distinguish three different types of coordination and examine their effects on silos: informal or semi-formal coordination, where administrative elites and professionals use quid pro quos to overcome coordination problems; formal coordination where political expectations, directions and monitoring may mitigate problems; and remedial policymaking where failure is addressed. The Hong Kong case reveals that effective changes may be made by strengthening existing

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coordinating mechanisms and extending them to the implementation level in a silo-dominant system. Radical reforms may improve coordination but they run the risk of political instability and service disruption.

Keywords: government structure; coordination; collaboration; silos; Hong Kong.

Introduction

A silo is a hierarchical organisation that maximises vertical coordination at the expense of horizontal coordination. It is inward-looking and self-contained with little regard for outcomes other than those which affect its own narrowly conceived goals (Tett 2015:16–17). Silos get a bad press. Much of the academic literature deals with their evident failures to share information, resolve jurisdictional disputes with other government organisations and coordinate effectively (Christensen and Lægveid 2007). They are criticised for the resulting ‘departmentalism’ (Gulick 1937), ‘tunnel vision’ (Rosenbloom et al. 2010:33), and their tendency to focus on limited objectives (Bezes et al. 2013). Their inability to overcome these problems often has poor outcomes, such as delays in decision-making, duplication of resources, inadequate service delivery, failure to resolve cross-cutting ‘wicked problems’, and difficulties in collaborating with non-governmental actors. This has prompted calls for the silos to be broken down, blown up or otherwise destroyed (Froy and Giguère 2010; Tett 2015:21–24). Some scholars do, however, emphasise their resilience, their importance within the formal organisational structure, and the need for vertical coordination in decision-making processes (Peters 2015).

We contend that, despite their many failings, silo-dominated systems may still be able to function effectively and mitigate the worst effects of poor horizontal coordination. In many Asian countries, for example, silos are particularly valued for their ability to deliver goods and services efficiently. Despite widespread recognition of the problems associated with them, in places where silos are embedded in the political system and given credit for rapid economic development, there is little appetite for radical reform (Scott 2020). If such reforms were to be introduced, they might include, inter alia, breaking up the large departments that characterise many Asian bureaucracies, creating less hierarchical structures, encouraging more upward communication, and reforming personnel practices by making many more positions contractual. All these measures are potentially contentious

and could be politically and administratively costly. Moreover, there are questions about whether such substantial organisational changes necessarily result in improvements. One of the most favoured solutions in the Western experience—breaking down the silos into specialised agencies—may simply replicate their problems on a smaller scale (Elston 2013). We suggest instead that silo-dominant systems may reduce dysfunctional outcomes by strengthening horizontal coordination mechanisms. It is important to identify what these mechanisms are, how they enable silos to work successfully with each other and under what conditions.

The Hong Kong Government is an appropriate arena to investigate these conditions because, since colonial times, it has had a highly centralised, hierarchical administrative system composed of large departments, often operating more or less autonomously. Although new statutory bodies have occasionally been created, silos have continued to provide the core functions of government. The change of sovereignty has made little difference. In 1995, two years before the handover, the Chinese Government announced publicly that, in the interests of stability, the civil service system would remain the same. In 2002, a system of politically appointed heads of bureaus was introduced but this affected only a few positions at the apex of government; the administrative structure did not change.

This continuity of structure means that problems of horizontal coordination have historically been addressed in largely similar ways and that, consequently, we can draw on case studies over a long period. To identify appropriate cases, we adopted a three-stage process. Initially, we interviewed senior government officials, including a former director of audit, a former ombudsman, and the then director of the efficiency unit, and asked them to describe cases of success and failure in coordination involving two or more government departments. We then examined the documentary evidence contained in the director of audit and ombudsman investigative reports, Legislative Council panel and committee minutes and reports made by other monitoring bodies that focused on structural issues, coordination problems and their proposed remedies. We then selected cases for in-depth analysis, concentrating on the specific mechanisms that have been used to address horizontal coordination issues.

In what follows, we discuss different types of coordination based on Mattessich's theoretical framework, attempting to locate the Hong Kong experience within it. We then consider the Hong Kong Government's bureaucratic structure, seeking to establish where the fault lines lie and where problems of coordination have arisen. Finally, we analyse three coordinating

mechanisms—informal coordination, political direction and remedial policymaking—which have been valuable in preventing or mitigating the failures in horizontal coordination arising from a silo-dominated system.

Cooperation, coordination and collaboration

Silos seek to ensure that they can perform their functions and achieve objectives without reliance on other departments and agencies. They will not usually engage in coordination *ab initio* but will coordinate if there is sufficient central political commitment to the objective and if sufficient resources are provided. Willingness to coordinate with other silos is often short-lived, however (Roberts 2011). Following Mattessich et al. (2001:39), we divide possible interactions into three categories: cooperation, coordination and collaboration (Table 18.1). This division is based on the extent of contact between different organisations. *Cooperation* is defined as an informal relationship without any commonly defined mission, structure or planning. It requires the least amount of contact, involving some form of ad hoc information-sharing or continuous communication on a particular issue. Participating organisations do not necessarily have a common goal and retain their discretion over the extent to which they will cooperate. *Coordination* is a more extensive form of contact which is based on some common goals. Contact may be structured or unstructured, formal or informal, routinised or ad hoc, with no requirement for shared authority or decision-making power. Coordination may involve the commitment of resources in joint or multiple attempts to resolve a problem (O’Leary 2015). *Collaboration* entails the most extensive, structured and routinised contact. It requires an organisational commitment, comprehensive planning and pooled resources and involves continuing coordination. By definition, collaboration is not usually the preferred option of silos seeking to retain jurisdictional monopolies and control over their resources.

It is conceivable that organisational relationships may evolve gradually from cooperation to coordination and then to collaboration. However, in silo-dominated governments, cross-cutting issues are likely to be resolved, if at all, at the cooperation and coordination stages. In Hong Kong, silos do sometimes cooperate and coordinate successfully, but there is little collaboration in Mattessich’s sense of the term. The question is how and why silos engage in cooperation or coordination and with what success.

Table 18.1: Cooperation, coordination and collaboration: Definitions and characteristics.

	Definition	Characteristics
Cooperation	An informal relationship without any commonly defined mission, structure or planning.	Information-sharing; sometimes with promises of future closer links. Authority rests with individual organisations.
Coordination	A more formal relationship, with an understanding of a commonly defined mission.	Some planning, division of roles and commitment of resources. Authority still rests with individual organisations.
Collaboration	A mutually beneficial, well-defined and durable relationship entered into by two or more organisations to achieve common goals.	New structure with full commitment to a common mission. Comprehensive planning and pooled resources. Authority defined by the common structure.

Sources: Adapted from Mattessich et al. (2001:39); O'Flynn (2009).

Hong Kong's government structure

In 1973, the McKinsey consultants recommended changes for reforming the Hong Kong Government that aimed to resolve the problem of horizontal coordination, but which left the silos system substantially intact. A line was drawn between policy branches (later called bureaus) which would make policy and departments which would implement it (McKinsey and Company 1973). Departments that were likely to need to coordinate were grouped under the same policy branch. In practice, however, they remained hierarchically organised, relatively autonomous from central government and each other and focused on achieving the efficient delivery of goods and services within their exclusive jurisdictions. This structure persisted during and after the change of regime because bureaucratic stability was highly prized by both the British and Chinese governments. Problems of horizontal coordination have consequently been largely similar, in principle if not in form, and have been addressed in similar ways.

The 12 largest departments in the Hong Kong Government (Table 18.2) have remained stable in structure and in proportion to the rest of the civil service. The Housing and Hospital Authorities have been hived off, although the departments remain part of core government. Some public bodies have been created to deal with specific issues (Painter 2012), but the government remains highly centralised. It has always believed that speedy

implementation is better realised through a well-defined hierarchy rather than through semi-autonomous agencies or more collaborative mechanisms. It has never adopted key new public management prescriptions such as the disaggregation of large government departments into smaller, single-purpose organisations or the adoption of flatter structures (Van der Walle and Hammerschmid 2011). On the contrary, the Hong Kong Government takes some pride in its ability to deliver public services efficiently and cost-effectively through different departmental hierarchies.

Table 18.2: Strength (by staff numbers) of the 12 largest departments in the Hong Kong Government, 2020.

Department	Strength	%
Hong Kong Police Force	33,245	18.7
Fire services	10,695	6.0
Food and environmental hygiene	10,524	5.9
Leisure and culture services	9,516	5.4
Housing	9,131	5.1
Immigration	8,817	5.0
Customs and excise	7,112	4.0
Correctional services	6,631	3.7
Health	6,526	3.7
Social welfare	6,229	3.5
Education	5,466	3.1
Post office	4,866	2.7
Others	58,898	33.2
Total	177,656	100

Source: Civil Service Bureau (2020).

The government has flirted briefly with practices that might promote more coordination, such as outsourcing, but its main reforming efforts have been to try to improve responsiveness (Scott 2010:98–118). In 2000, the then chief secretary for administration, Anson Chan, said that she favoured more 'joined-up' government. However, the examples she gave were improvements in service delivery, not more fundamental reform (Chan 2000). In 2012, the then chief secretary for administration, Carrie Lam Yuet-ngor (later Hong Kong's chief executive), also made 'joined-up' government one of her top priorities. She said that 'the Government tends to be compartmentalised ... different bureaus and departments work in their own silos, so my role is to ensure that [they] act in concert as a joined-up

government' (Civil Service Newsletter 2012). The focus in both cases was the unresponsiveness of the silos to public demands rather than the wider aim of improving horizontal coordination. Generally, administrative practices, including budgetary reforms and extending the functions of existing large departments, have tended to strengthen the silos. Personnel practices favour retaining staff on permanent terms. Most civil servants stay in their departments for their entire careers and are strongly acculturated into the kinds of administrative behaviour that result from working in a hierarchical, self-contained system.

The Hong Kong Government's structure is not designed to aid more extensive horizontal coordination. Hierarchical systems, as Wegrich and Štimac (2014:48) observe, result in 'limited capacity of the centre to process information'. The Hong Kong Government tends to compound this problem. If greater coordination is thought to be required, its common response is often to create a new organisation and then place it under the hierarchical direction of a silo. For example, after the SARS (severe acute respiratory syndrome) outbreak, the Centre of Health Protection was established under the Department of Health. Similarly, after concerns about food safety, a Centre for Food Safety was created and placed under the Food and Environmental Hygiene Department.

The mistrust of autonomous and specialised agencies has its roots in historical experience and failed experiments with such agencies. Some services were originally delivered by an Urban Services Department which was notionally run by an elected Urban Council. However, the government believed that the council was badly run, corrupt and not sufficiently accountable. From the late 1960s onwards, it sought to dissolve the council, an aim that was eventually achieved in 2000. The post-handover administration did create some new devolved agencies but there were serious management and financial problems in some cases (Director of Audit 2007a, 2007b). Problems of coordination between the Hospital Authority and the Department of Health during the SARS epidemic in 2003, which were exacerbated by the tensions between the powerful medical professionals and civil servants, reinforced the official view that more centralisation was a better option than creating devolved agencies (SARS Expert Committee 2003:103–09).

Aside from the difficulty of ensuring coordination, specialised agencies may not represent a better way of resolving the problem of horizontal coordination. Elston's (2013) study of British executive agencies suggests that the sins of the silos may be replicated in single-purpose, specialised

agencies. Tett (2015:16–17) also notes that behaviour such as failing to share information can be found in different organisational forms. If that is so, then it is not the silo as an organisational form that is the problem but rather the kind of administrative behaviour that may be encouraged within it.

What is evident is that silos are unlikely to disappear. They are embedded in government perceptions of how the public service should be run, valued as a necessary constituent part of institutional stability and seen as an essential means of providing efficient services. If conditions are favourable, as the Hong Kong Government's experience suggests, silos may also be able to coordinate successfully even without the formal structures, comprehensive planning and pooled resources for collaboration. What kinds of conditions are necessary to foster success in horizontal coordination?

Coordinating the silos

Hong Kong has had its fair share of failures arising from a lack of horizontal coordination. Some could well have cost lives, such as in the SARS and COVID-19 epidemics. Others have been costly and potentially dangerous. For example, the construction of two major railway lines and the failure to deal adequately with the problems of seepage in private housing. Still others, such as the maintenance of footpaths near public parks, cleaning up after typhoons and a repaired road that was not opened for 18 years (Yeung 2017), have caused considerable inconvenience to the public. Yet amid the failures, there have also been instances of successful coordination between departments which have resulted in favourable outcomes. Three mechanisms—informal coordination, political direction and remedial policymaking—have helped to overcome some intrinsic problems and to enhance horizontal cooperation and coordination.

Informal coordination

In the Hong Kong Government, although seniority often determines promotion, civil servants' career prospects are generally framed by their performance within a department. Consequently, there is an incentive to ensure that the hierarchy functions effectively and that services are delivered efficiently. But there is very little motivation for civil servants to address problems requiring cross-departmental action and some risk

in doing so because most issues concern resources and jurisdiction. There are, however, two sets of decision-makers—administrative grade officers and professionals—who have more incentive to initiate and engage in coordination with other departments.

The administrative grade is the policymaking elite within the Hong Kong Government. It is composed of about 600 civil servants who serve in 13 policy bureaux and over 30 departments (Civil Service Bureau 2020). They owe their loyalty to the central Hong Kong Government rather than to any bureau or department and are subject to transfer every few years. Members of the grade are selected partly on their expected ability ‘to get things done’ on which their promotions may depend. They are highly paid and, provided they perform, can expect to rise quite rapidly to very senior positions. Apart from their policy formulation role, administrative officers may also coordinate the provision of government services at the district level or act as the officer responsible for developing and implementing joint projects between departments. Departmental officers, by contrast, are not usually transferred outside their departments.

Under colonial rule, the administrative grade had a significant impact in enhancing horizontal coordination, as two historical events illustrate. In the late 1970s, the government decided to build three new towns in the New Territories. Implementation involved coordinating many different government departments and ensuring that the plan did not fall behind schedule (Hayes 2012:100–14). Administrative officers played a critically important bridging role between the silos. They succeeded partly because they had backing from senior officials and partly because they were able to trade favours with other administrative officers to ensure speedy completion of projects. Had there been no horizontal coordination, it is unlikely that the colonial government would have been able to move swiftly enough to complete its public housing and infrastructural projects in the New Territories on time.

Between 1975 and 1980, approximately 200,000 Vietnamese refugees arrived in Hong Kong by boat and sought asylum. The influx of refugees was felt in every part of the public service but the government was slow to react to the crisis. It was faced with such problems as incompatible communication systems in the police force and the departments of immigration and customs and excise, preventing officers from talking to each other, and cumbersome and time-consuming protocols for deploying resources. Administrative officers, however, were able to bypass the

protocols because they knew that they had political support for action. They circumvented regular procedures in the expectation that favours would be returned by other administrative officers to help quickly settle the refugees in more humane conditions.

To persuade silos to coordinate, it is often necessary to have mediators willing to engage in action which corresponds with the achievement of wider political objectives. The administrative officers provide some leavening of the departmental disposition to keep new developments in-house. But there are relatively few administrative officers at the mid-to-senior levels of the departments and their influence is consequently limited. It has been further diminished by the introduction of political appointees in the post-handover period. Until 2002, administrative officers could aspire to become policy secretaries, the head of the bureaus. Thereafter, although former administrative officers were often appointed as policy secretaries, they had to resign from the civil service, were appointed on contract, and could be dismissed by the chief executive. In 2008, political appointees were also introduced in the bureaus with the specific intention of taking over the political role of administrative officers. These appointees, however, are specifically prohibited from playing a coordinating role in the civil service. In a fractious political environment, middle-level administrative officers in the departments have less incentive to risk their careers by engaging in horizontal coordination; concentrating on managerial duties within the department is believed to be less risky.

Specialist teams, which are a feature of most large bureaucracies (Serrat 2017:711–16), may fill the void in such situations. In Hong Kong, they are a relatively recent development, representing a change in the composition of the civil service although not its structure. Under the colonial government, the civil service had many employees at the lowest levels but relatively few senior or professional personnel. In 1988, for example, 23 per cent of the civil service, mainly labourers and artisans, were on the Model Scale 1 pay scale (Civil Service Branch 1988); by 2020, only 4 per cent were on the Model Scale 1 pay scale (Civil Service Bureau 2020). The government now has many more middle-level and senior professionals. When multidimensional projects are implemented, professionals are assembled in teams to discuss the issues, plan the approach, complete the task and are then dissolved. The role played by specialist teams helps to mitigate the worst aspects of horizontal coordination in a silo-dominated system. Potential problems that might arise from the lack of formal collaboration can be prevented by informal coordination mechanisms.

Political direction

Despite the hierarchical system, political decision-making at the top may not always provide enough direction or monitoring of horizontal coordination and implementation (Peters 2015:47). For issues high on the agenda, there may be sufficient political will to ensure coordination; for more enduring policy issues requiring coordination, political attention is likely to be more sporadic; and, for minor issues that fall between the jurisdictional cracks, there may be difficulty in persuading the centre to take action at all. In this section, our principal concern is with unresolved issues that require central direction and monitoring.

In 1973, the McKinsey consultants observed that ‘once a departmental proposal has been approved there is virtually no control over whether implementation is carried out efficiently or on time’. Joint programs required large meetings of senior staff from all departments involved (McKinsey and Company 1973:12, 15). A fundamental assumption of the government has been that an approved policy can be implemented through the hierarchy without much further monitoring. This assumption may be justified if the issue is contained within the silos. Effective vertical coordination through the span of control is often sufficient to ensure that mistakes are detected. Horizontal coordination is an entirely different matter. Here there is very often little commitment from the department. Left to their own devices, silos may well allow projects involving horizontal coordination to wither on the vine. Two examples illustrate the difficulties.

Water seepage is potentially a major problem in Hong Kong where the vast majority of the population live in apartments. The Housing Authority deals with public housing complaints and appears to be reasonably efficient in dealing with them (Legislative Council Panel on Housing 2014). It is in private sector housing where most problems have arisen. Complaints about seepage in those cases rose by 70 per cent from 17,405 in 2007 to 29,617 in 2015 (Director of Audit 2016). Private owners can seek government assistance if their neighbours are not cooperating in solving a seepage problem or the source of the seepage is not clear (Office of the Ombudsman 2008b). Three departments are involved in rectifying problems: the Buildings Department (BD) which supervises contractors employed to detect the source of the seepage; the Food and Environmental Hygiene Department (FEHD) which makes the initial inspection and may issue nuisance notices to uncooperative neighbours; and the Water Supplies Department which deals with leaking pipes.

In 2006, the government created a Joint Office (JO) composed of staff from the BD and the FEHD to handle complaints. However, the number of complaints continued to rise and the ombudsman eventually decided to conduct a direct investigation into the JO. Her report describes the difficult relationship between the departments in the JO:

JO is a loose assortment of BD and FEHD staff in uneasy partnership. Neither BD nor FEHD is in a position to exercise proper authority over all JO staff, or to take full responsibility for JO's performance ... the disjointed organisation is hardly conducive to the two grades ... working together efficiently or communicating effectively and cultivating a mutual bond in service. (Office of the Ombudsman 2008b:9)

There was no acknowledged head of the JO with 'formal authority and clear lines of command over staff secondment and office management' (Office of the Ombudsman 2008b:9). Subsequent investigations revealed that there was friction between the FEHD and BD staff over investigations on seepage and on follow-up measures. In 2016, the Director of Audit observed that there were declining, rather than improving, success rates in determining sources of seepage and resolving problems, that there were anomalies in the exchange of information between departments, and that the JO did not collect information consistently from its 19 district offices (Director of Audit 2016). By June 2020, when the ombudsman conducted yet another direct investigation, the JO had 23,403 outstanding cases of which 8,437 dated from before 2019. The ombudsman concluded that the staff might 'work in silos, lack coordination and lack determination to resolve problems in the absence of a coherent management structure' (Office of the Ombudsman 2020:6).

A second instance of failure of political direction occurred in the Mass Transit Railway Corporation's (MTRC) construction of two railway links. The MTRC is a semi-autonomous corporation, 75.6 per cent owned by the Hong Kong Government. In constructing the links, both of which ran through densely populated areas, the corporation had to deal with numerous government departments, which caused significant delays. Coupled with construction problems, the cost of the first 26-kilometre link between Hong Kong and the Mainland Chinese rail network blew out from an original HKD39.4 billion to HKD84.4 billion, then the most expensive railway line in the world. The cost of the second link, an internal subway connection, increased from an initial estimate of HKD79.8 billion to HKD97.1 billion, surpassing the first link in cost per kilometre.

In 2019, the government appointed a commission of inquiry into the causes of the delayed completion and cost overruns of the second link. The commission found that, while there were many construction problems, the government had to bear some responsibility for the failures because it should have been an 'active participant' rather than a 'passive bystander' (Hartmann and Hansford 2020:200). The commission identified 12 bureaus and departments with which the MTRC had to deal on a one-to-one basis and recommended that there should be a single point of contact instead. It proposed measures which would link data from all parties and reduce wasted or duplicated effort and also supported the development of a more collaborative culture, the creation of a senior leadership forum to oversee major projects, and 'a comprehensive review of the way in which the government monitors and controls major projects' (Hartmann and Hansford 2020:201).

Do centralising measures resolve problems of horizontal coordination? In both the seepage problem and the rail links cases, more central oversight might have identified issues before they deteriorated into costly mistakes. But there is still a need for more effective coordination at the implementation level itself. In highly centralised systems, permitting discretion to deal with immediate problems may not always be granted, resulting in delays as information is transmitted upwards through the hierarchy. As the McKinsey consultants observed, coordination between silos is likely to drift because the political priority of the issue tends to be forgotten. Departments left to themselves usually place issues requiring coordination at the bottom of their agendas. An administrative officer given authority as head of the JO might have resolved differences between departmental personnel, stressed the mission of the office and ensured that vertical coordination with the 19 district offices was improved.

Strengthening horizontal coordination at the implementation level must be accompanied with the authority to act. Where there is clear intent from the central government to pursue a course of action, it can usually persuade or insist that departments work together. But where the issue is not regarded as critically important, political direction is often missing. The heavy emphasis on line implementation needs to be supplemented by improved monitoring of coordination when programs or projects are being implemented. Leaving coordination to the silos alone is likely to founder in a morass of conflicting departmental objectives and regulations.

Remedial policymaking

It may be difficult for reformers in a central government to question the autonomy of the silos unless they have pressing evidence of defects in implementation. By the time these defects become apparent, however, central policymakers may have moved on to other issues. Hong Kong is fortunate to have effective monitoring agencies in the ombudsman and the director of audit. They provide the kind of information (and ammunition) which may be used to re-examine an issue and thus belatedly strengthen horizontal coordination. We refer to this as remedial policymaking.

In 2001, the Hong Kong Government set up an integrated call centre (ICC) to provide a one-stop shop for enquiries and complaints about government services. Twelve departments joined the scheme which was run by the Efficiency Unit (EU), an agency reporting directly to the chief secretary for administration. Although the ICC was a significant improvement in complaint handling over departmental hotlines, there were still numerous complaints about insufficient follow-up action and the misdirection of calls to departments. In 2003, the ombudsman launched a direct investigation, which revealed tensions between the departments and the call centre. Departments complained that they were being pressured by the EU to join the system and to surrender their departmental hotlines (Office of the Ombudsman 2003:53). The ombudsman recommended that greater attention should be paid to individual departmental requirements and suggested that they be allowed to opt out of the scheme. As the EU pointed out, this would have undermined the whole idea of a one-stop shop (Office of the Ombudsman 2003:viii).

By 2007, complaints about the ICC were increasing and the ombudsman decided to conduct another investigation. Many of her recommendations concerned problems of dealing with 3 million calls per year but there were also observations on interdepartmental relationships and the departments' view of the ICC. One issue was the extent of the service. Although there were now 20 participating departments, six major departments, including the police, were still outside the system. Some departments wanted to join the scheme but the ICC had staffing constraints and could not accommodate them. Departments were also using the ICC as a shield, communicating with each other through the call centre and attempting to shift responsibility in controversial areas such as illegal waste disposal and slope safety (Office of the Ombudsman 2008a).

Over the next decade, the ICC's teething problems were largely resolved. Technology may have smoothed out some of the communication problems. From 2011 onwards, it was possible to download an application to make a complaint and receive a response without making a phone call. Departments also seemed to place more value on the ICC, which provided both initial contact with the public and speedy direction to the means of resolving the problem. By 2015, the ICC was receiving over 4 million enquiries and complaints and covered 22 departments (Efficiency Office 2022). The benefit of revisiting and remedying the kinds of problems which the ICC faced has probably not only made it more efficient but has helped to increase trust between departments and the centre.

Remedial policymaking may also result from the sudden elevation of an issue on the policy agenda. A case of domestic violence, for example, resulted in a political response that changed relationships between the police and the Social Welfare Department and affected the role of five other departments. In April 2004, in Tin Shui Wai, an immigrant mother and her three children were murdered by her husband, who subsequently committed suicide. The mother had sought help from the Social Welfare Department and the tragic outcome might have been attributed to the department's failure to share information. The panel which reviewed the case thought otherwise. It noted that Tin Shui Wai district had the highest rates of spouse abuse, unemployment and concentration of public housing. It looked carefully at the coordinating mechanisms and communication between the Social Welfare Department and other departments in the planning process, finding that the coordinating committee was ineffective (Legislative Council Panel on Welfare Services 2004:38). The panel also recommended an improved and more formal referral system and more information-sharing between the Social Welfare Department and the police on domestic violence cases.

Following the Tin Shui Wai incident and the investigative report, domestic violence as an issue moved from departmental cooperation to more formal coordination. The role of departments was more clearly specified and expanded; the government provided additional resources; NGOs conducted research; the panel set up a subcommittee to consider the issue; and the domestic violence ordinance was amended (Lee 2008). The police were reluctant to become involved in domestic violence issues, but they did improve their coordination with the Social Welfare Department, establishing a 24-hour hotline connection to exchange information and advice (Legislative Council Panel on Welfare Services 2007). Victims of

domestic violence were given more protection and offences were investigated although there were still claims that the police tended to minimise offences (Leung 2014; Hong Kong Hansard 2017:5234–41)

Despite the criticisms, the reforms were an improvement on past practice. The police gradually adapted their procedures and the item slipped down the policy agenda as cases classified as domestic violence showed slight declines (Hong Kong Hansard 2017:5240, Annex 1). Although coordination improved, domestic violence remains the kind of issue that could spark further controversy. Ideally, proper coordination between departments should be specified from the outset on such issues but that rarely seems to happen in silo-type situations. Remedial policymaking therefore becomes necessary to provide the political direction for a more effective coordinated future approach and to ensure that, when gains are achieved, major systemic problems will not re-emerge.

Conclusions

Under a silo-dominated system, issues quite often drift into a bureaucratic stand-off between departments. Issues that continue to fester have detrimental consequences for servicing public demands and for the government's image. Nonetheless, the Hong Kong case suggests that silos can engage in effective horizontal coordination if the conditions are right. Three mechanisms to improve horizontal coordination have been identified: encouraging informal coordination, ensuring better monitoring of the implementation of political directives and learning from experience in remedial policymaking situations. If political direction is clear and committed and is followed through with appropriate coordination mechanisms at the implementation level, then positive results can be achieved. In the case of evident failures in horizontal coordination, there may be opportunities for remedial policymaking and the chance to rectify a problem permanently. Although silos often cause governance problems, radical reform to break them down often comes with equally negative consequence for institutional stability and service disruption.

Our study has implications for other silo-dominant administrative systems, particularly in Asia. Whatever measures might be adopted to improve horizontal coordination in such systems, a basic consideration is to retain the virtues of vertical coordination and to ensure that the structure and functions of the silos are consistent with that aim. At the same time, the

increasing complexities of government mean that the prospect of new issues falling between the jurisdictions of silos is very real. Horizontal coordination, for that reason, requires more attention from silo-dominated governments and more innovative ways of dealing with the kinds of administrative problems which it presents.

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Creating a service system from scratch: Community old age care services in China

Bingqin Li

Abstract

Broadly speaking, China's current old age care service system has two pillars: community services (including home services and community-based services) and institutional care homes. While the need for services is still far from being fully met, this service structure has only emerged recently after years of development, including some U-turns, involving different roles for the market, the family, the state and the community.

This chapter analyses the policies and practices for community old age services and examines the current situation and the key governing issues. It shows that old age care in communities has multiple components. It is hard for each individual sector or service provider to initiate an all-rounded service system organically. The initial development of a community old age care system that covers all people in need requires the state to function as the initiator, stimulator and the coordinator. The case in China shows that that market actors did not initially see 'business' in community old age care services and were reluctant to operate in this field. The state therefore was involved in identifying what roles can be played by the market and figuring

out the conditions and supports needed for providers from non-government sectors. In this sense, the government had to introduce policies to 'bring the market' into or 'create the market' in the community service sector.

Keywords: old age care; service system; communities; China.

Introduction

The World Health Organization (2020) suggested that 2021–2030 is a decade of opportunities for taking coordinated actions to improve the quality of life of older people and their families in the community. Chinese society is being deeply affected by population ageing. It is expected to experience a peak in population size around 2030 (recent forecasts estimate that the peak may come as early as 2027). In 2000, the proportion of the population aged 65 and over was only 7 per cent, but by 2020 the proportion had reached 13.5 per cent. According to data released by the Ministry of Civil Affairs in October 2020, it is predicted that the older population will exceed 300 million during the '14th Five-Year Plan' period (i.e. before 2026). At this rate, it is estimated that by 2050, one in four people in China will be over 65 years old.

China's population ageing will have far-reaching impacts on public policies (Yang 2014). The older people's dependency ratio will increase, and the tax burden of the working population will increase. The older population and their savings will directly affect consumption patterns and the services people need. Pension funds will pose challenges for the capital market and portfolio management as they mature and retirees draw on their accumulated savings. The challenges in aged care will be aggravated by China's 4:2:1 family structure (four grandparents to two parents to one child) so that older people without children's support will become a more serious social problem if they cannot receive the care they need. The demand for socialised old age care will therefore increase. Some of these challenges are about the sustainability of economic development and some are about the ability to care for older people.

Broadly speaking, China's current old age care service system has two pillars: community services (including home services and community-based services) and institutional care homes. While the need for services is still far from being fully met, this service structure has only emerged recently after years of development, including some U-turns, involving different roles for

the market, the family, the state and the community. Reviewing China's policy changes, it is not difficult to see that the role of the community as a central manager of old age care services disappeared for a period and returned later. Why did community-based aged care fail in the first round of reform but survive in the second round? This article focuses on the policies and practices for community old age services and examines the current situation and key governing issues. The author argues that providing old age care in communities requires the involvement of multiple stakeholders from different sectors. Therefore, the initial development of a community old age care system that covers all people in need requires the state to function as the initiator, stimulator and coordinator. The state was involved not just in delivering social services, but also identifying the role of the private market, figuring out what the market needed to enter this field and how it might contribute to the provision of the services older people needed and desired. What is interesting in the Chinese case is that the market actors did not initially see 'business' in community old age care services and were reluctant to enter. The government had to introduce policies to bring the 'market' into the community service sector.

There has been some research on the market creation activities of the state as China shifted from a command economy to a 'socialist market' economy, such as in the financial sector (Collins and Gottwald 2014), electricity supply (Lei et al. 2018), infrastructure construction (Pascha 2020) and environmental services (Can 2002). In the field of social policy, market creation can be observed in the housing sector in the 1980s and 1990s (Li 2017), pension reform since the 1990s (Li 2014) and more recently in long-term care insurance (Zhu and Österle 2019). Community social services are somewhat different from these earlier goods and services in that community aged care is not a single or standard set of goods and services. It involves a range of goods and services delivered to people locally, the content of which may vary as people's needs and preferences vary and change. Therefore, the market creation in this field is worth separate examination.

The following section of this chapter examines how aged care policy changed and evolved over time. It shows how the state in turn had tried to directly provide community-based services to older people, then looked to the market and subsequently to social organisations; the section ends with a description of the eventual emergence of a largely community-based service system that relies on all sectors and utilises multiple sources of resources. The discussion section summarises the features of the emerging

service system and identifies some outstanding issues. The chapter concludes with a discussion of the implications for system creation in this sector in China.

Background and history

The Chinese Government has adopted various public policies to address ageing-related social risks. The first involved the establishment of social insurance arrangements, including a multilevel, integrated pension system to cover as many people as possible (Wang and Huang 2021), though the system still faces challenges of unequal access, segmentation and poor long-term sustainability (Li 2014; Lin et al. 2021). Alongside the introduction, expansion and consolidation of public health insurance schemes, long-term care insurance has also been piloted in some cities to support integrated medical and social care development for older people (Shen et al. 2014; Zhu and Österle 2019). The second was to develop the private care service market and form a system offering a diverse range of care services (Feng et al. 2012; Feng et al. 2020). The third was to improve adult children's ability and willingness to care for their parents through public awareness programs (Cheung 2019; Zhang et al. 2020), emphasising the obligation of adult children to support and visit their parents (Meng and Hunt 2013; Hu and Chen 2019), though the effectiveness of these policies has been questioned. The fourth was to adapt residential buildings to be old age-friendly (Xie 2018; Cheng et al. 2021; Yu et al. 2021). The fifth was to promote active ageing and healthy ageing—for example, investing heavily in socialisation, fitness and learning facilities and services for older people (Cai and Kosaka 2016; Cai and Kosaka 2019; Bonaccorsi et al. 2020; Wang et al. 2020; Xiao et al. 2020). These facilities and services allow older people to stay healthy and continue participating in society.

Some of these policies are directly aimed at older people while some have a broader target. For example, in some regions, it was once stipulated that adult children could only have access to pensions in cities if their parents belonged to a pension scheme in their rural area (Li 2014). Some communities in Shanghai require adult children to pick up and drop off their parents at their day care centres (Li et al. 2015). Some other policies affecting older people are aimed primarily at achieving other policy goals.

For example, to attract migrant workers to return to inland cities, some cities allow returning migrants to rent public housing together with their parents (Shen and Li 2020).

The development of the community old age service system has been through several stages, as described below.

State in the driver's seat, but failed (1990s–2000)

In the 1990s, China's family and social structure underwent serious changes as the nation moved to a more open economy. The average household size dropped from 4.41 in 1982 to 3.44 in 2000. The sense of community was weakened with rapid urbanisation and fewer people continuing to live in the same location throughout their lifetime. The number of people leaving hometowns to receive education and seek employment increased rapidly. It became more common that adult children and their parents lived in different cities. Even if they lived in the same city, young couples stopped living together with their parents. Families of three became common. More urban residents lived in high-rise apartment buildings, as low-rise residential areas were demolished. Community support networks operated by acquaintances or organised by employers collapsed. These changes undermined the traditional care model that relied on family members and neighbours to help each other. The government looked to privatise or socialise old age care by introducing a new old age care system.

The *Law of the People's Republic of China on the Protection of the Rights and Interests of the Older People*, published in October 1996, proposed the construction of service facilities and networks to meet the needs of older people and support rehabilitation in case of injuries. The 10th Five-Year Plan for the Development of Older People's Affairs set several targets, including that for every 1,000 older people there would be 10 beds in nursing homes, and 90 per cent of rural villages would have at least one nursing home. The goal was 'to build a community-based old age care service system to provide comprehensive services at various levels, effective monitoring mechanisms and a high-quality workforce for the older people (State Council PRC 2001).

The National Starlight Project for Community-based Old Age Welfare Services was launched on 8 June 2001. The 'Project' was set out to use 80 per cent of a welfare fund (about RMB5 billion) raised through a state-run lottery, plus RMB5 billion from the government and other sources over

three years, to establish welfare service facilities and social venues in 100,000 urban communities and rural townships. By the end of 2005, the Starlight Project had invested RMB13.4 billion to build 32,000 ‘Starlight Homes for the Elderly’ and provided a series of services, including home services, emergency assistance, day care, health and rehabilitation, and sports and entertainment activities. Overall, an average of 1.3 urban old age welfare facilities were established per neighbourhood (*jiedao*, ‘street’), and one nursing home for every 9.8 neighbourhoods (State Council PRC 2006).

The changes during this period reflected the government’s intention to fill the gap between needs and services after the collapse of the planned economy. The focus was on the state as the driver but ongoing funding and care delivery being the responsibility of the market and the community. This approach of ‘government setting up the stage and the people (or businesses) perform’ (*zhengfu datai, qunzhong/qiye changxi*) was in essence a replication of the logic in other business activities, such as free trade zones and industrial parks (Yeh and Xu 2008; Jiang 2020). The idea was that if the government takes the initiative and provides some basic services and infrastructure, the businesses could take off.

Unfortunately, the Starlight Project failed (Feng et al. 2012). Nearly two-thirds of the services were terminated after the three-year project period and the homes were then used for other purposes by the local authorities. This experience revealed a clear lesson: community-based social care is different from other businesses that could generate continued cash flow through selling services to users. Relying on individuals or service providers to directly fund or find alternative funding without the state’s ongoing budget support was not sustainable. The main reasons for the failed state initiative as widely reported in the media were (1) lack of supervision with many facilities not properly operating; (2) the investment mostly went to activities centres, and little was available for the needed care and health services; and (3) older people were rarely consulted in the decision-making and operation (Wan 2021).

Returning to the market only worked for the better off (from the mid-2000s)

Since China joined the World Trade Organization, labour market mobility has further increased. It became more common for older people to live separately from their parents (Li and Hyun 2013). At the same time, with the average life expectancy of older people increasing, there are more people

with senile diseases and disabilities. Even if adult children wish to take care of their parents personally, they would not be able to meet the needs of frail older people, due to lack of professional knowledge and skills (Zhu and Walker 2018). In February 2006, the State Council proposed to gradually establish and improve the service system with home care as the main form of care, community services to provide support and institutional care as a residual supplement, and to encourage private investment in old age care. Home-based social care began to take root in urban communities.

In 2010, the government decided to increase public funding support for the family service industry. In 2012, the *Law on the Protection of the Rights and Interests of Older People* shifted the priority from family care to home-based care. Home-based care means that older people live in their own homes but receive social services. This policy shift required a corresponding increase in the capacity of aged care services. The approach still stressed the family as the primary providers of care, but that they may expect to receive some housekeeping services subsidised by the government. Quite often domestic workers who were not trained for old age care became carers and the need for professional and accessible nursing services kept growing (Hesketh et al. 2005; Zhang and Goza 2006; Flaherty et al. 2007).

From 2000, privately funded care homes started to gain popularity. Older people, including healthy people, were attracted to the idea that they could socialise with other people in care homes. At that time, as a result of the next stage of ‘opening-up’ reforms, a large number of state-owned enterprises went bankrupt and many older people below retirement age lost their jobs and effectively retired. These, and many people above retirement age who were physically healthy, became bored after retirement. Private care homes identified this niche and targeted able-bodied older people. Private providers were keen to serve the high-end market enjoyed by the wealthy. However, even in the high-end care sector, it was difficult to profit directly from care provision as few consumers could afford the fees required. But many businesses were able to make profits by exploiting the local land economy. The land economy was booming at the time, and local governments were eager to lease land to the private sector to gain revenues. Real estate developers rode the tide of urban expansion and saw the potential gain in land value. They bought land and built houses or business facilities, the lion’s share of the profits coming from land value appreciation and housing sales. In some cases, retirement care or facilities were offered at affordable prices, effectively cross-subsidised by the increasing housing and land value. As land value kept growing, even if the care services were not profitable, the companies

could still make a profit. This business model had two implications: the care services were cross-subsidised by the earnings from land; and the properties had to be located in peri-urban areas with the potential for urban expansion (Aveline-Dubach 2020). As a result, many able-bodied older people moved back to their own homes and accessed these market-provided services. Apart from services for people living in their own homes, some private old age care homes were also established this way. Some private companies set up care homes on these peri-urban land properties and charged more affordable care fees than those in more central locations. However, these business models also meant that the care provision was not taking place in most older people's communities. The disadvantages of this institution-based care soon became clear: it was not easy for their adult children to visit.

In the urban communities, some small businesses were able to enter the community old age care sector because of government subsidies. For example, some restaurants allow older people to pay with government-provided food vouchers. However, on the whole, apart from in the peripheral areas with a limited range of services, private companies were not keen to provide old age care in this period.

The state's intention to create a market for community-based care was visible. It played the role of a signaller: making it explicit in the policy that the largest share of care should take place at home and be funded by individual users and their families. There were several reasons behind the reluctance of private service providers entering this market. First, within urban communities, there is not much land to spare for care facilities and directing property to aged care is not profitable except for the very wealthy. Second, in this period, the average income of older people was much lower than it is now. Third, as the community sector was subsidised right from the beginning, it was difficult to tell how much money people were willing to pay. For profit-seeking private service providers, the case for entering the community aged care sector was low.

Inviting the social organisations to be part of the game (2005–15)

The private sector's reluctance to enter the aged care market drove the state to look for alternative solutions. The logic remained the same: the government would prop up the stage and invite the providers to 'perform'. To prop up the stage, two strategies were pursued. The first involved announcing policies highlighting even more the importance of old

age care and providing funds for ‘hardware’. In December 2011, the State Council’s ‘Plan for the Construction of the Social Service System for Older People (2011–2015)’ included measures to extend access to residential aged care for those unable to stay at home and to provide support to home-based care. The plan proposed that during the 12th Five-Year Plan, there would be 30 beds for every 1,000 older people; and 30 per cent of the existing beds would be renovated to meet the quality standards. The stress on producing the ‘hardware’, such as rooms, beds and equipment in communities, came with the hope that service providers would find them attractive and see the state’s commitment. The higher authorities also found the provision of hardware easier to monitor as performance indicators.

As to the ‘software’, the actual services, a second strategy was to introduce social organisations to the sector. ‘Social organisations’ has been the official term for non-government organisations (NGOs) or non-profit organisations (NPOs) in China, which includes charities, and either newly set up NPOs or the previous state service providers. Social organisations entered the field of community social services, with 13 city pilots introduced in 2013. Some of the services were provided independently by the social organisations and some operated under various forms of partnership with the local governments—for example, with state funding or by social organisations using subsidised facilities. The government funding was by project grants and the funding had to be reviewed regularly. Sometimes, the state offered operational funds annually. At the same time, the government also severed itself from direct old age care service provision completely. The previously fully funded government services became non-profit services provided by social organisations.

These changes injected new energy in the system. By the end of 2015, the total number of old age care service organisations and facilities in communities reached 26,000. There were 62,000 mutual assistance facilities and 2.98 million beds were in the communities (including in community nursing homes and day care centres) (Ministry of Civil Affairs 2016). In addition to nursing services, new types of services also emerged. At the end of 2015, there were 2,280 national-level old age service NGOs, 210,000 legal aid centres, 71,000 coordination agencies for the protection of rights and interests of the elderly, 53,000 third age schools with 7.33 million senior students, and 371,000 activity rooms across the country (Ministry of Civil Affairs 2016).

However, the same old question soon returned: ‘How to sustain these services?’ The challenges include the following, as the fieldwork in the pilot cities by the author and her colleagues revealed (Li, Fang et al. 2019).

1. There were different understandings of local governments’ roles in the development of social organisations. In the state–social organisation partnership, the government contributed in-kind support, such as venues and/or financial support, such as an initial startup fund or some annual cash input. Staff costs were not fully covered or not covered at all by the governments. Even when the government purchased services directly from non-profit organisations, the government only paid the minimum wage to staff members, which was much lower than the wages a professional could earn working for private service providers. The government considered the partial funding model an incentive mechanism, as they did not wish the social organisations to be dependent on the government. The social organisations were expected to ‘graduate’ and become independent. However, the social organisations did not see themselves as ‘businesses’ and expected the government to fund them on an ongoing basis.
2. Despite the overall support for the goal of improving services, not all stakeholders shared the same understanding of specific objectives in their daily operation or for each project. For example, the local government officials needed to get used to the fact that they were not just allocators of funds. They had to select projects to be operated by people with whom they had not previously worked and allow them some flexibility to conduct their businesses. However, the government officials were still held accountable to their managers to perform well—in this case, ensuring that the contracted social organisations delivered the outcomes they had promised. For an inexperienced local government official, a key question was how to balance the need to control the risk that the service providers default on their promises and the need to avoid treating social organisations as subordinate to management as if part of the government.
3. Paradoxically, the elderly users did not necessarily trust social organisations. This was partly because, in the past, the old age care services were provided by the public sector, many targeted at urban elites and provided at a high standard. For most people, staying at home was the only option and services beyond family support had not been available. When residents were invited to community-based facilities, prospective

users were reluctant to use them despite the services appearing to be more informal, smaller and cheaper to access than the publicly delivered services, though without a track record for good service. As a result, initially, new social organisations found it difficult to attract customers, even with government subsidies. This was particularly problematic for recruiting customers for services delivered to people's homes (Wong and Tang 2006).

The introduction of social organisations led both researchers and policymakers to reflect on the fact that old age care service investment is not commercially viable, and the government cannot avoid taking responsibility. The introduction of social organisations helped the state to draw on the resources of civil society and the non-profit sector's capacities to provide services. The social organisations, through project bidding, have managed to come up with some new initiatives that were not provided in the past by the state or the market, but the sustainability of these projects requires some ongoing government financial support.

More recent developments: Returning to community

The '13th Five-Year Plan' (2016–2020) reiterated the need to develop an old age care service system with home-based (90 per cent), community-based (7 per cent) and institution-based (3 per cent) services. A whole set of goals were set. The central government committed to support 203 cities during the plan to improve their home- and community-based care services.

The plan drew on previous pilot studies and attempts to encourage private investment. In February 2014, the Ministry of Housing and Urban–Rural Development had identified 42 areas, including Xicheng district in Beijing, to conduct pilots, marking a crucial step forward. Since the second half of 2014, the key components of the old age care service system became clearer as more businesses emerged to populate different segments of services: community-based day care centres, nursing homes, pensioners' homes, integrated medical and nursing service facilities, and rural old age service facilities. For most urban communities, the private sector was still the main supplier of services. In 2015, the government began to encourage private investment in the old age care sector and introduced tax reductions and

exemptions for nursing services provided by private old age care institutions. In the second half of 2015, the integration of medical and old age care was put on the policy agenda.

At the time of the 13th Five-Year Plan, despite the increased number of services, supply was still far from being sufficient to meet needs. Table 19.1 shows the results of a national survey conducted in 2015 of older people in China. The items in the left column are the main services that are meant to be available in the communities. Even the services with the most coverage, such as public health services and legal services, are only available to less than 40 per cent of older people. The red items are the services older people said they needed. Table 19.1 shows that most of these services have very limited coverage, revealing there is a long way to go to meet needs.

Table 19.1: Needs and supply of community-based services (2015).

Items	Availability to respondents
Legal services	33%
Funeral services	21.8%
Day care centres	15.6%
Domestic helper services	15.2%
Community canteen	5.9%
Shopping companions	2.2%
Matchmaking for older people	1.6%
Health talks	37.5%
Health professional visits	35.0%
Psychological counselling	15.5%
Recovery services	12.3%
Home visit nursing	15.5%
Hospital visit companions	5.6%
Family visits for patients	4.5%
Renting or selling recovery equipment	3.9%

Source: Table redrawn by the author, based on: www.Crca.cn.

Recognising these unmet needs, the 13th Five-Year Plan established firm performance targets, but by 2020 achievement fell short of most of the targets set (Table 19.2).

Table 19.2: Performance targets set by the 13th Five-Year Plan (2016–20).

	Target ¹	Achievement by 2020
Old age care beds		
Government-operated	<50%	–*
Nursing beds in care homes	>30% of all beds	–*
Health literacy	>10%	23.15% ²
Grade I and II general hospitals with geriatrics departments	>35%	19.7% ²
Health management rate for 65+	>70%	67% ²
Third age education participation	>20%	4.1% (2019)** ³
Registered older volunteers	>12%	NA**
Communities with grassroots associations for older people	>90%	65% ⁴

Notes:

* Nursing home care beds made up 59.5 per cent of all old age care beds. However, this is a result of combined results of growing nursing home beds and reduced community care beds. Also, as a result of the reforms, fully funded government operated beds were disappearing.

** Data not available as COVID-19 affected the social activities of older people.

Source: Compiled by the author using the following documents:

¹ State Council PRC (2017).

² Health Commission (2021b).

³ Association of Senior Citizens University (2021).

^{2,4} Health Commission (2021a).

The difference between this new community care initiative and the 2001 Starlight Project was that the focus was not on prescribing the services to be provided, but rather on setting up a community service matching system in which the community service centre is at the core, functioning as a platform for linking resources and services. Some centres also provided services, such as day care, community canteens and game rooms. Others provided an open space for users to book. In some cases, services are contracted out by the community service centre to private and social organisations service providers (Li, Fang et al. 2019).

The 14th Five-Year Plan (2021–2025) and the 2035 Long-Term Vision Outline (*yuanjing mubiao gangyao*) proposed to vigorously develop inclusive old age care services, build an old age care service system that synthesises home care, community-based care and institutional care, integrate medical care and health care, and promote smart old age care, as well as to develop a multilevel and multi-pillar pension insurance system. The government

would support the development of new business models such as ‘internet + old age care’, ‘property + old age care’, and ‘medical health + old age care’. By 2025, all urban communities are to be covered by care service facilities, forming a circle of community-based home care services that can be reached within 15 minutes. In rural areas, during the ‘14th Five-Year Plan’, the government plans to fill the remaining gaps in old age care service and strive to build at least one county-level care institution for people with disability and two township-level rural/regional old age care service centres in each county, and to develop cooperative old age care facilities to provide home-based care services in all rural villages. In short, to produce a three-level rural care service network at the county, township and village levels. In the next five years, the supply of nursing beds in old age care institutions is to continue to increase. By 2025, 55 per cent of the beds in old age care institutions would be nursing beds, which would provide professional nursing care and guarantee care for older people with disability. This means that the institutional care facilities have to provide more substantial nursing services which are more needed by older people who have become disabled.

In the process of defining this service framework, two trends have emerged. The first is redefining the relationship between the family, the market and the government in care provision. To this day, the family’s responsibility as the primary caregiver remains. The government has never ceased to reiterate family responsibilities. At the same time, the policymakers also recognise the problem of lower family care capacity under the current population structure and have tried to search for a solution to the problem of the sole reliance on family members to provide care. The trend of growing socialisation of care is the result of such a pursuit. The second trend is the changing understanding of the ideal place of care. Initially it was the family home. It was later shifted to a private nursing home that could be far away from an older person’s family home. Once it was recognised that private nursing homes were not sufficient, there was also a return to the family and the older people’s own home. But this return to the family is supported by community-based services.

In recent years, providers of high-end elderly care institutions have moved into a wider segment of the community services sector through various public–private partnership models, such as public provision of service venues with contracted private/NGO service provision, or subsidised private/NGO service provision. In July 2019, the National Development and Reform Commission officially announced the first batch of contracted inclusive elderly care projects in the country, a total of 119 projects,

including projects to be managed by well-known high-end brands in the industry. The Ministry of Civil Affairs data shows that in July 2020, there were 42,300 old age care institutions nationwide, with 4.291 million beds serving 2.146 million older people. Among them, the number of private care institutions and their share of beds exceeded 50 per cent.¹

Several factors lie behind the private sectors' interests in community care. First, 'community care' now incorporates what was home-based care (90 per cent) and community-level care (7 per cent). This means that community care can cover both services delivered to people's homes by businesses based in the communities and services delivered at the community level. The concept of community care will cover 97 per cent of the elderly population and encompass all care services (Zhu and Österle 2019). This greatly increases the options for the types of services that can be supported by the government. Second, the private old age care companies have to seek alternative markets as a result of the changing regulations. However, the ability of real estate developments to continue to profit on land in this way has become uncertain. Since 2016, a series of land registration and taxation reforms have been introduced to make land transactions and revenue uses more transparent than before. This is expected to change business models where businesses focus either on the profits generated by land or profits from the activities on the land (Yang and Yang 2021). While this is yet to have much impact on the urban land economy (Zhu and Österle 2019), private businesses are starting to look for alternative business solutions to diversify their risks. Third, with more government subsidies flowing into the care sector and the prospect of long-term care insurance (Du et al. 2021), the prospect of earning a profit in community care is higher than before. It is far too early, however, to tell whether these larger private companies can outperform their predecessors and play a major role in community aged care.

Some large social organisations such as NPI² and Kangle Nianhua³ have gradually developed into national or regional service chains. The wider geographic coverage and broader range of services made it possible for them to work beyond administratively defined service zones and develop standardised service packages and take advantage of economies of scale.

1 There is a high vacancy rate of old age care beds. This phenomenon results from the governments' subsidies fixating on the number of beds rather than on the provision of suitable services that are demanded by the older people. This is a legacy of the era for quantitative growth which needs to be addressed in the future (Li et al. 2021).

2 See: www.npi.org.cn.

3 See: www.klnh.net/html/guanyu/gong.

Supporting mechanisms

A series of related system changes have been put on the policy agenda, such as improving the health of older people, exploring a long-term care insurance system and clarifying guardianship for older people, developing a nationwide service quality standard and evaluation system, and developing a rating system for old age care institutions. In October 2016, the government started to subsidise construction of old age friendly housing and adaptation of old houses. In order to facilitate family care for older people at home, a household registration reform policy was introduced in 2018: people aged 80 and above can move to the same city as their children and settle down with local household registration (*hukou*). In December 2020, the State Council proposed to expand service supply to encourage innovation and integration of the old age care industry. In December 2020, the Ministry of Civil Affairs began to advocate a ‘property services + old age care services’ home community old age care model.

Another crucial perspective that has yet to be resolved is the labour market supply. The market for aged care workers was not regulated. Abuse of either workers or older people happened in private homes and there was no way to address it (Laliberté 2017). The workers did not receive much training and could not provide quality services when there were special needs (Strauss and Xu 2018). In some pilot cases, the state took greater responsibility to manage the domestic service labour force. The workers were employed by the local agencies and service users would receive vouchers to book services. As a result, these services were regulated. However, the type of services provided in this way was limited to relatively simple tasks such as house cleaning and visiting for companionship. For some years, the workers did not receive any social protection and their jobs were not secure (Cook and Dong 2017). The situation is gradually improving because of severe labour shortages. Some regions such as Guangdong and Zhejiang provinces started to provide extra wage subsidies to attract more labour (Li et al. 2021).

Discussion

This review of government policies and the changing approaches shows how the Chinese government has been trying to create a coherent and effective old age care system in the communities. In the beginning, following the initial ‘opening-up’ economic reforms, the government recognised the need for

old age care services and decided to take on the responsibilities by itself, but these efforts failed because there was no follow-up or ongoing investment, and there was no clear understanding of what services older people needed. The services established at the time were terminated as a result. Failure in direct state provision encouraged the opposite view; that the market could do better. However, the market did not seem to see community old age care as their territory, other than via some home care services provided by workers with limited care skills. Efforts to contract social organisations were a 'third way' solution which drew on the non-profit sectors and hoped to inspire civil society. However, as newcomers into the service sectors, social organisations faced issues of low trust and the challenges of limited ongoing funding by the government. Accordingly, the activities since the end of the ill-fated Starlight Project to develop a community old age care system in China can be perceived as a flurry of policies and efforts to create a system that could hold businesses from different sectors together to play their part in supporting older people to stay at home. It is becoming apparent that several core components are essential for developing a care service system in communities.

1. A better-defined concept of 'community' in China is needed. There are about 8,562 'streets' (neighbourhoods) in cities that are also labelled as communities. There are also 38,773 rural communities. There is a big difference between the population of streets and rural communities. The largest 'streets' can have 200,000 to 300,000 residents, and the small ones can have tens of thousands of people. If the larger ones are divided into smaller units (such as by residential estates), there are at least one hundred thousand or more communities across the country. Therefore, 'full coverage' (one service centre per community) by street-level definition will still mean quite low service density. In addition, communities can have very different population structures. Some communities can have very high density of older population and others very low. The administratively determined service capacity may have to be adapted to the varied level of needs. So far, as the policy is still in a pilot stage, cities and communities have some leeway to adjust. In the future, one would expect higher-level planning to specify more clearly the meaning of 'community' and the standard levels of services to be provided.
2. A suitable service structure is crucial for making community services provision an attractive space for businesses. The merging of home-based care and community-based care has broken down the barrier between 'home' and 'community' and opened the business horizon in

communities. For example, instead of older people having to move into a care facility that will be subsidised by the government, older people can receive subsidised services when they are living at home. This will significantly reduce the community service providers' costs.

3. A community-wide governing structure that would not just be about government 'social service planning' and 'policy implementation' but also about supporting businesses, public, private or non-profit, to meet the care needs of the people. It is increasingly clear that community service centres can function as platforms to match services and needs. However, these service centres had been used as government policy implementers for many years. Their capacity to identify and service the population is far from developed (Li, Hu et al. 2019).
4. Profitable or at least sustainable business models for various community-based services for service providers are yet to be properly developed. At present, the state funds service venues and part of the operating expenses but expects service providers to cover labour costs beyond a minimum income level (Li et al. 2021). At the centre of the sustainability issue is that there has been a serious shortage of qualified social workers to assess needs and allocate resources and a shortage of care workers, in particular those who are qualified, to look after the frailest older people. Many types of old age care services, in particular long-term care, are labour intensive and it is hard to ensure sufficient supply of skilled labour (Vadean and Allan 2021). In China, the average users cannot afford to pay by themselves for the services that would be considered affordable in richer countries. While some companies have gained experience through older people's real estate and high-end care homes and have a better understanding of what care services older people need, it is difficult to figure out how much money people are willing and able to pay for these services in addition to government subsidies. At the same time, governments in China are not yet able to fund the sort of core services that higher income countries can afford. As labour costs are the main part of the business operation, few service providers have managed to develop a profitable or even sustainable business model, even with the government subsidies China has so far found it can afford.

In theory, there may be several lines of solutions: (a) lowering service costs through technological and managerial innovation; (b) identifying or establishing alternative sources of funding, such as charity funds and long-term care insurance; (c) focusing the spending on a smaller number but core needs. The long-term care insurance is promising as it would involve

formalised service needs evaluation and relieve older people from the burden of paying for care out of their own pockets at the point of use. Long-term care insurance is still at the pilot stage. There have been high hopes that it will enhance affordability and assess needs more rigorously. However, there is no guarantee of success (Feng et al. 2020), one challenge being the need for a qualified labour force. Some provinces such as Guangdong and Zhejiang have managed to subsidise labour costs, which had resulted in more labour supply. However, these are the wealthiest provinces in the country and the popular destinations of migrant workers. The poorer provinces, in particular rural areas, on the contrary continue to suffer from severe shortage of qualified labour (Pei et al. 2017).

Conclusion

There has long been a debate in China over whether old age care should be the responsibility of the family, the market or the state. A further discussion is whether market supply is able to respond automatically when demand grows or whether government interventions such as ensuring a suitably skilled workforce are required. As population ageing gains momentum, worrying about the potential crises in old age care, the state saw the necessity to take action before the market was willing to react. So far, in the community-based care sector what can be observed is that the state cannot be the single player in the field. Social organisations (NGOs) are not yet fully effective, as the literature on communities likes to highlight, largely because the state's funding position is still heavily constrained and charging higher fees from the users is not feasible in most cases. The private sector has been doing well in the high-end market but is still hesitant and tentative in community-based services. What the state has managed to achieve so far is to figure out that combining home-based care and community-based care gives both the state and the market players a lot more room to manoeuvre so making the community service system more attractive to private sector providers. What is also clear, however, is that ultimately, for the care system to function well, it is important to find a coherent overall framework with state subsidies based on some assessment of care needs and ability for users to pay, leaving a clearer role for the market and social organisations to compete to deliver the associated services. The ongoing long-term care insurance pilots have opened the door for streamlining the finance and needs evaluation of the service users. However, to what extent it can help to fill the sphere of community-based care is yet to be seen.

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20

The challenge of allocating resources for an effective health system in China

Jiwei Qian

Abstract

This chapter analyses resource allocation in the Chinese health system since the comprehensive 2009 reforms. While total health expenditure in China has increased dramatically since the SARS (severe acute respiratory syndrome) outbreak in 2003, primary care providers do not have enough resources and struggle to retain experienced doctors and procure advanced equipment. Well-equipped hospitals are concentrated in large cities, where qualified specialist doctors are concentrated too. Further, resources for healthcare services have been concentrated in the major metropolitan centres and there are significant inequities in access across and within provinces. The underfunding of the public health system was demonstrated during the outbreak of COVID-19, when the public health system came under stress. The intersection of three axes of hierarchies—hierarchies between hospitals, between medical institutions and between places—creates a huge disparity in the capacity of grassroots primary care and large hospitals and distorts their respective roles. While the amount of fiscal subsidy for primary care clinics has increased significantly and social health insurance schemes now cover over 90 per cent of citizens, there has been a shift from primary care and public health which may represent a decline in health-seeking behaviour in recent years.

This chapter argues that misallocation of resources in the health system is in large part a consequence of inappropriate incentives, including for bureaucrats. In particular, the way fiscal subsidies are allocated does not give priority to improving the quality of health care because other performance targets attract greater rewards. While the amounts of fiscal subsidies and social insurance support are increasing, these are not directly linked to the quality of services, particularly those provided in primary care clinics. In the future, resource allocation mechanisms should be designed to provide more appropriate incentives.

Keywords: health system; resource allocation; bureaucracy; China; COVID-19; public health; hospitals; primary care.

Introduction

With a rapidly ageing population and increasing incomes in China, more and more resources have been allocated to the health system. The share of total health expenditure in gross domestic product (GDP) increased from 4.8 per cent in 2003 to about 7.1 per cent in 2020. Total health expenditure in China reached RMB7.56 trillion in 2021 (Figure 20.1). Between 2008 and 2020, the annual growth rate of total health expenditure was very fast (14.3 per cent on average).

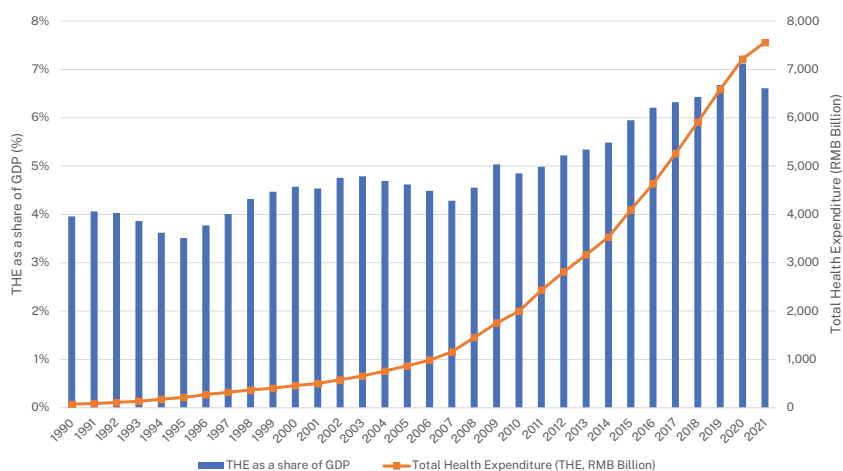


Figure 20.1: Total health expenditure (THE) and share of THE in GDP: 1990–2020.

Source: NHC (various years) and NHC (2022).

A major guideline for health reform was released in April 2009 by the State Council. It is a comprehensive reform covering all major aspects of the health system. Initiatives include expanding health insurance, reforming public hospitals and reforming the pharmaceutical sector (Qian and Blomqvist 2014; Qian 2022).

More than a decade later, it is evident that the health reforms achieved a dramatic increase in both government health expenditure and in social insurance support. Government health expenditure includes the government budget allocated to various medical institutions (e.g. hospitals, primary clinics, among others) as well as the fiscal subsidy to social health insurance, among others.¹ Both government expenditure and social health insurance reimbursement are considered public sector financing. However, they belong to separate statistical categories. While the government health expenditure is part of the government's general budgetary expenditure, reimbursement from social health insurance is recorded in a separate account outside the general budget.

Table 20.1: Composition of government health expenditure in the general budget (RMB billion).

	2017	2018	2019	2020
Government health expenditure	1,520.6	1,639.9	1,801.7	2,199.8
Health insurance subsidy	502.4	548.3	586.4	606.6
Fiscal subsidy to public hospitals	219.3	229.5	253.5	284.8
Fiscal subsidy to primary care clinics	132.5	137.9	152.5	148.9
Budget for public health	188.6	203.9	221.2	387.9

Source: Ministry of Finance (2022).

In 2020, government health expenditure amounted to about RMB2.2 trillion, up from RMB359 billion in 2008. The annual growth rate of the government health expenditure between 2008 and 2020 reached 16.3 per cent on average. The government share of total health expenditure almost doubled to 30.4 per cent in 2020 compared to 17.9 per cent in 2005 (Figure 20.2). Over the same period, reimbursements from social health insurance funds have increased from 11 per cent in 2005 to around 29 per cent by 2020, remaining at about that level since. With the increasing government and social insurance expenditure, the affordability issue has been significantly relieved. Out-of-pocket health expenditure decreased from about 60 per cent in 2000 to about 27.7 per cent in 2020.

¹ The definition of government health expenditure is based on NBS (various years).

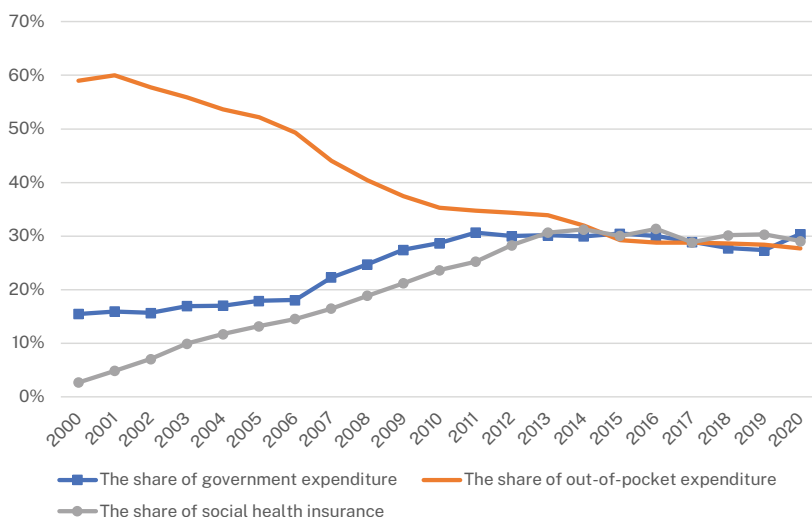


Figure 20.2: The composition of the total health expenditure in China: 2005–20.

Source: NHC (various years).

Social insurance in health financing expanded greatly in the mid-2000s with the introduction of the New Cooperative Medical Scheme and the Urban Resident Insurance schemes for rural and urban residents respectively. The various social health insurance plans under these schemes covered 95 per cent of the total urban and rural population by 2011 (Qian 2021). Figure 20.2 shows that expenditure from social health insurance accounted for about 29 per cent of total health expenditure, or over RMB2 trillion in 2020, compared to 13 per cent, or RMB114 billion in 2005.

However, healthcare affordability remains a serious concern in China. Out-of-pocket expenditure still accounts for a significant share of total health expenditure (Figure 20.2) and can be a huge problem for some people, as a financial burden and/or a barrier to access needed healthcare services. Indeed, a nationwide administrative record in 2013 revealed that health conditions were the major cause of rural poverty, affecting over 42 per cent of the rural poor (Table 20.2).

Table 20.2: Reasons for poverty for 89 million rural poor in China in 2013.

Reasons for poverty	Share of households
Illness	42.4%
Short of credit	35.4%
Short of technology	22.3%
Short of labour force	16.8%
Financial burden of tuition fee and schooling	9%
Disabled	5.8%

Source: Xinhua (2016).

Apart from affordability, accessibility to health care and public health support is another concern. People have few incentives to visit primary care clinics rather than hospitals, leading to lower earnings for primary care providers. Without the financial capacity to improve their equipment and facilities or to hire qualified doctors or health workers, these primary care clinics cannot provide the necessary services to their patients. The utilisation rate of health care needs to be improved to attract more patients to primary clinics. The share of primary clinics providing outpatient service has decreased since the 2009 reforms.

For example, based on data from the China Health and Nutrition Survey (CHNS),² many people still choose self-treatment or no treatment rather than seeking health from a healthcare service provider. The increase up until 2004 may reflect the then rising out-of-pocket costs in the absence of much social insurance and limited government expenditure. Concern for service quality could be another major reason for under-utilisation. In 2015, about 10 years after expanding of health insurance in urban and rural areas, a large proportion of people in both urban and rural areas still continued to engage in self-treatment or non-treatment when they fell ill (Figure 20.3). This may relate to the out-of-pocket expenditure that remains or the quality and availability of local services or personal attitudes towards modern healthcare treatments, or (most likely) a combination of these.

² The survey includes over 4,400 households in nine provinces. CHNS has been expanded to 12 and 15 provinces in the 2011 and 2015 wave respectively. See: www.cpc.unc.edu/projects/china, accessed 28 August 2021.

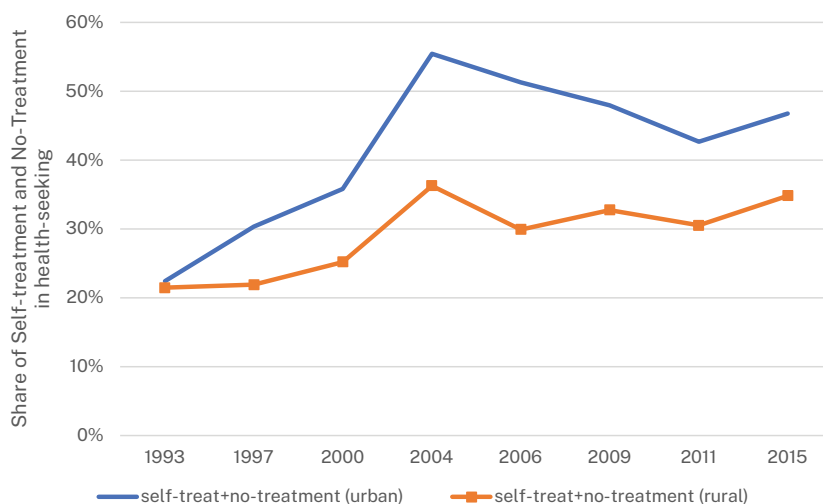


Figure 20.3: The share of self-treatment and no-treatment in health-seeking, 1993–2015 (%).

Source: China Health and Nutrition Survey datasets (CHNS n.d.). Further information about the dataset is available at: www.cpc.unc.edu/projects/china/data/datasets.

After the outbreak of the COVID-19 pandemic in early 2020, the public health system in Wuhan came under great stress, as most infected and suspected cases were found in Wuhan. While primary care clinics should have been able to respond, they lacked the necessary resources to deal with the crisis. There were not enough health workers in primary care clinics to treat infected cases and suspected cases. In 2017, only 2,500 doctors worked in primary care clinics, compared to the 76,000 doctors working in hospitals in Wuhan. Also, in primary care clinics, the supply of medical equipment was grossly insufficient. There were not enough devices for diagnosis and no isolation wards in many community-level hospitals/clinics (Fan and Yeng 2020).

This chapter argues that the affordability and accessibility issues are mostly the result of resource misallocation in the health system. First, too many resources have been allocated to hospitals rather than to primary care clinics, and this is likely to increase financial burdens for households. And this misallocation of resources leads to low service quality in the primary care clinics. As a result, patients have incentives to visit doctors in high-tier medical institutions, although for major social health insurance programs

in China, the reimbursement rate is lower in hospitals than in primary care clinics.³ Higher-tier hospitals are also associated with higher non-medical costs (e.g. long waiting times).⁴

Second, the spatial distribution of resources is too concentrated in big cities. Many residents in smaller cities and rural areas have difficulties in accessing health care. Third, a decreasing share of resources has been allocated to public health institutions, especially before COVID-19. The capacity of public health institutions was shown to be inadequate in the early waves of COVID-19 in China as it spread beyond Wuhan. The spatial concentration of resources exposed the vulnerability of small cities during the COVID-19 pandemic.

This chapter argues that misallocation of resources in the health system is to a significant extent the consequence of the performance incentives for bureaucrats in the central and local levels of government. In particular, the central government's reform initiatives in the health system, including those relating to fiscal budget allocations and health insurance reimbursement, have not been reflected in the incentives for local government and health bureaucrats. Local health bureaucrats want to allocate resources to the areas in which their performance is best rewarded. Performance relating to public hospitals is generally more measurable quantitatively than performance in regard to public health (until a crisis actually occurs). Further, the tension between the multiple objectives of local government (i.e. between regional economic development and equalisation of access to health care) leads officials to concentrate health resources where they most contribute to economic growth.

Improving the way government budget funds and social health insurance benefits are allocated is a central policy issue for the next stage of China's health reforms. Bureaucrats' incentives, which reinforce the objectives of health service provision, health insurance and public health, are critical.

3 As shown in the *Statistical communiqué of the development of health insurance* (NHSA 2020), the reimbursement rate was higher in lower tier medical institutions, see www.nhsa.gov.cn/art/2021/6/8/art_7_5232.html, accessed 29 September 2021.

4 Also see Yang (2020) for a discussion on this topic.

Health resource allocation and the role of bureaucrats

In the initial stages of the move away from the central planned economy in the 1980s, the government reduced its financial responsibility for public health services (previously provided largely through collectives and public enterprises etc.) and transformed them into market-oriented services. Consequently, health resources were increasingly concentrated in regions where people could afford to pay for health. As a result, disparities in local economic conditions led to a greatly unequal distribution of health resources and high out-of-pocket costs.

After a long process of debate and various attempts to improve healthcare services and access to them, and revisions based on this experience, a comprehensive guideline for health reform was eventually released in April 2009 by the State Council. It represents a comprehensive reform covering all major aspects of the health system including health insurance, public hospitals, primary care clinics, public health and the pharmaceutical sector (Qian and Blomqvist 2014). The target of the health reforms, according to the guideline, was to build a health system that would be accessible to and affordable for all Chinese citizens by 2020. The government would play a lead role in this system while market mechanisms through competition and procurement would also be used. Local pilot programs were encouraged across all major policy arenas and would be pivotal for future implementation of the health reform.

As suggested in the health reform guideline, because the market mechanism has played a role in the uneven resource distribution in the health system, the government is critical to ensure equitable resource allocation. In general, government grants are allocated to healthcare providers for several purposes: upgrading infrastructure, paying for the basic salary of health workers and retirees, subsidising public health campaigns, and paying for the operating costs of certain services with regulated prices (Qian and Do 2019). In 2019, health service providers received in total RMB673.5 billion through government grants.

There are several ways in which the government can contribute to this. First, the government can allocate funds from its fiscal budget to support health service providers and public health institutions. At the central level government, there are at least three possible avenues to do so through

earmarked transfers to local governments: via the Ministry of Finance, the National Development and Reform Commission or the ministry directly responsible for the relevant health program or project (Zhou 2012). The Ministry of Finance is in charge of managing fiscal transfers. The National Development and Reform Commission is in charge of local planning of health resources that are related to investment in health infrastructure.⁵

All levels of government—central, provincial, prefecture and county—provide grants to medical institutions. The central government allocates healthcare grants for provincial governments through the Ministry of Finance. Provincial governments also use their own budgets to allocate healthcare grants to sub-provincial governments, including prefecture and county/city governments. Both provincial and sub-provincial governments use their budgets to allocate grants for service providers via local (‘township’) health bureaus. The local government allocates fiscal subsidies to public hospitals (over 11,000 in 2020). The Ministry of Health directly—or indirectly via provincial governments—allocates grants from its budget to ministry-supervised hospitals. Currently, there are 44 ministry-supervised hospitals in China, these hospitals being leading teaching hospitals.⁶

Second, the government in China plays a critical role as the regulator to support service provision and social insurance fund management. Social health insurance is funded by employers and employees and covers over 95 per cent of the population, reimbursing a proportion of the costs of health services. The government can also influence the behaviour of health service providers by regulating the number of hospital beds and personnel (Qian et al. 2019).

Third, the government also serves as a health insurer and sets insurance policies. While social insurance schemes in other countries are run by non-profit organisations or independent government bureaus, those in China are usually managed by the local government at the city/county level. Insurance policies vary across regions in terms of their scope, coverage and benefit levels (Mok and Qian 2019). For example, for urban resident health insurance enrollees in Shanghai, between 50 per cent and 70 per cent of inpatient costs in excess of RMB1,500 and up to a maximum of

5 For example, the National Development and Reform Commission manages the plan for building regional healthcare centres in the 14th Five-Year Plan (2021–25). See the report: finance.sina.com.cn/tech/2021-06-07/doc-ikqcfmaz9688123.shtml, accessed 28 September 2021.

6 See a report about these hospitals in: www.nhc.gov.cn/tigs/ygjb/201904/7ebf6cb546424ea8b35b2ffe9d988a8b.shtml, accessed 28 September 2021.

RMB550,000 were met by the city's insurer in 2020. In Xi'an city, while the reimbursement rate is similar, the ceiling for enrollees under its urban resident health insurance scheme was set at only RMB200,000 in 2020, much lower than that in Shanghai (Sohu 2020).

Bureaucrats at the different levels of China's central and local governments make and implement policies. The central government sets the overall policy targets and priorities, but local officials in China have considerable discretion in implementing the policies. Policymaking and implementation are dynamic processes, in which bureaucrats in government departments, local officials and citizens interact, and bureaucrats and cadres also interact across levels of government. The policymakers in the central government who design the policy reform, and define the direction of the policy process, interact with those at local levels who implement policy, taking into account their experience. Social policy reform reflects this dynamic interdependency.

Spatial concentration of health resources

Healthcare resources are more likely to be concentrated in regions where people can afford to pay for health, either directly or through the local taxes and insurance premiums they pay. Therefore, disparities in local economic conditions explain much of the unequal distribution of healthcare resources. In principle, government grants—particularly through intergovernmental transfers—can be used to subsidise healthcare providers to improve accessibility and equality of healthcare services across regions. Through these government grants, health service providers in less advanced regions can upgrade their facilities and hire more doctors. Since the mid-2000s, China has implemented policies aimed at reducing disparities in accessibility to healthcare services in less developed areas, with an emphasis on basic health services, which include public health services and primary care. These include grants from local and central government budgets to healthcare providers, which can be used to pay for physician salaries, build infrastructure and/or subsidise specific healthcare services.

For a long time, place-based policies including regional economic development strategies have proven to be quite effective in China. For example, the special economic zones policy adopted since the 1980s has had significant positive effects on all those zones' major economic indexes, including investment, employment, productivity, and wage levels (Lu et al. 2019; Adler et al. 2016).

However, in support of regional economic development, some resource concentration is sometimes desirable. Specifically, the urban agglomeration effect, which refers to the spatial concentration of economic activities in cities including mega cities, is believed to have a positive effect on productivity and economic growth (Glaeser 2008).

Regional development policy in China is generally metropolis-oriented, to exploit the urban agglomeration effect (Jaros 2019). Disparities between urban and rural areas, across cities and across provinces continue to expand as provincial governments promote regional integration. These disparities have extended to health services, particularly through China's decentralised social insurance arrangements. The disparities in access to public services have been magnified as resources have been concentrated in the major cities in each region.

Wider metropolitan-related plans have been released in recent years such as Beijing–Tianjin–Hebei, the city cluster in the Yangtze River Delta, Changsha, the Zhuzhou–Xiangtan Comprehensive Reform Pilot Zone and so on. Many of these regional development initiatives have focused on investment and infrastructure building (Jaros 2019:36). Provincial governments are also supporting city-level governments to provide public services (Jaros 2019:40), with the risk of further disparities.

There is therefore some tension between the policy initiatives aimed to equalise access to health services across regions and regional economic development policies, which involve the spatial concentration of resources including for health services. In this chapter, we use Yangtze River Delta regional integration (YRD) as a case. Yangtze River Delta is a major government initiative to integrate both social and economic development in four provinces in the region (i.e. Shanghai, Jiangsu, Zhejiang and Anhui) (Podger et al. 2020). Occupying only 4 per cent of the total area of the country, the YRD was home to about 230 million residents, or about 16.7 per cent of the total population in China in 2020, up from 15.7 per cent in 2006. The share of the YRD in total GDP increased slightly from an already high 23 per cent in 1999 to 24 per cent in 2020. In comparison, the share of the Great Bay area decreased from 23 per cent of China's GDP in 1999 to 11 per cent in 2020. The share of Beijing–Tianjin–Hebei region in this period has remained relatively stable at between 8 and 9 per cent of GDP. The YRD economy is hence larger than other major economic regions in China.

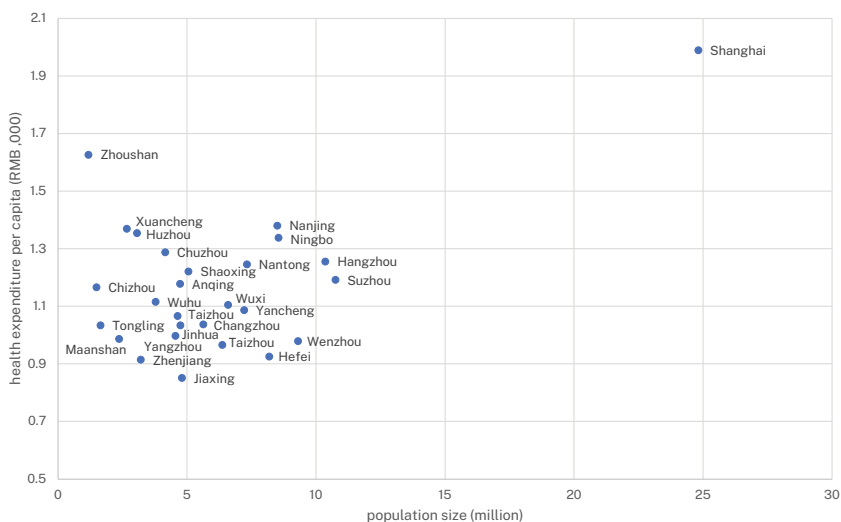


Figure 20.4: Government health expenditure per capita (RMB ,000) and population size in 27 cities in the Yangtze River Delta in 2019.

Source: CEIC (n.d.).

Based on a national government guideline on regional development, the core area of the YRD includes Shanghai and 26 out of 40 prefectural level cities in Jiangsu, Zhejiang and Anhui (Podger et al. 2020). After the release of the 2019 national guideline for the integration of the YRD, all four major provinces released their own action plans and named their offices responsible for regional development. In these regional development initiatives, the development of city clusters is intended to support regional integration and facilitate labour mobility (migration), exploiting the agglomeration effect (i.e. spatial concentration of economic activities in cities). Further, to support regional integration, the portability of health insurance is essential for those workers who relocate from one place to another place in the region.

Figure 20.4 shows the distribution of government health expenditure per capita across 27 cities of different sizes in the Yangtze River Delta region in 2019. It is very clear that government health expenditure per capita in Shanghai, as the largest city in the region, has by far the highest level of government health expenditure per capita in the region (about RMB2,000 per capita). This illustrates that, given regional development policies, health resources are likely to be concentrated in the major cities (or city) in the region. Government investment in health infrastructure in Shanghai is believed to support regional development. To further exploit the urban

agglomeration effect, labour mobility is being encouraged and in the YRD areas, social health insurance has been portable across cities since 2020 (Qian 2021). In cities in the YRD, a social insurance contribution history in other cities is recognised by the local social insurance office. This initiative might further increase the attractiveness of Shanghai compared to other cities (i.e. even better amenities in Shanghai).

Under-utilisation of primary care clinics

The increasing imbalance of demand for healthcare services among medical institutions is another major concern. Revenue from service provision in public hospitals as a share of total health expenditure increased from 21.7 per cent in 2008 to 28.5 per cent in 2019 (NHC various years). Further, in 2019, together with revenues from selling pharmaceuticals and direct government fiscal subsidies, revenues of public hospitals (a combination of social insurance reimbursement and out-of-pocket payment) accounted for about 48 per cent of China's total health expenditure, a very high rate compared to the OECD (Organisation for Economic Co-operation and Development) average of 38 per cent (World Bank 2016).

In most healthcare systems, primary care clinics are the major provider of most outpatient services and represent the front line of a health system. A person's first contact with the health system when he or she falls sick in most countries is with a primary care provider who also takes responsibility for continuity and coordination of care.

Primary care providers in China comprise community health centres and health service stations in urban areas and township health centres, township health clinics and village clinics in rural areas. There are generally 1–10 general practitioners (family doctors), 1–2 pharmacists and 1–10 nurses working in each of these institutions, depending on the size of the population within the community.

Much of China's success in improving its population's health during central planning before the 1980s related to the high standards of public health, through immunisation campaigns and improved environmental standards achieved by authorities through local health clinics within collectives and public enterprises etc. across China; the people in charge of public health functions at the time were often the providers of regular primary care.

With well-developed networks of primary care providers, accessibility and affordability of a health system can be improved for the following reasons. First, primary care providers are usually located close to the patients. Hence, it is more efficient for them to provide preventive health services and public health services. Primary care providers can also maintain long-term relationships with patients so they are well positioned to understand medical histories and contexts; this is particularly important for managing the growing incidence of chronic diseases.

Second, with a well-established referral system, primary care providers can play the role of a ‘gatekeeper’, taking pressure off public hospitals and high-cost specialist services. With referral arrangements, patients are required to be diagnosed first by primary care providers before they are referred to a hospital. Health resources in hospitals can thus be used to help patients who are genuinely in need of specialist treatment.

Third, as patients usually have less knowledge of the range and quality of health services, primary care providers can make more efficient decisions on behalf of patients on secondary care.

However, the role of primary care providers has been eroded in China in recent years (World Bank 2016). The share of outpatient services provided by primary care clinics dropped from 61.8 per cent in 2010 to 51.9 per cent in 2019 (Figure 20.5) (NHC various years). After the outbreak of COVID-19, the share of primary care clinics in total outpatient services rebounded slightly to 53.2 per cent in 2020 but decreased again to 50.2 per cent in 2021. The share of outpatient services provided by hospitals increased from 34.9 per cent in 2010 to 45.8 per cent in 2021 (NHC various years, 2022).

The quality of services provided by primary clinics is a concern (Li et al. 2017). The low service quality may partly explain the low utilisation rate in the primary clinics. Under-development of a referral system, shortage of professional health workers, and a lack of coordination between clinical care and public health services are among the reasons for the low service quality in primary care clinics (Li et al. 2020).

The quality of primary care services may also be affected by the incentives the doctors face from the way the government, through its social health insurers, finances primary care clinics (Blomqvist 2011). Reforming payment methods could better align service providers’ incentives with quality in primary care clinics.

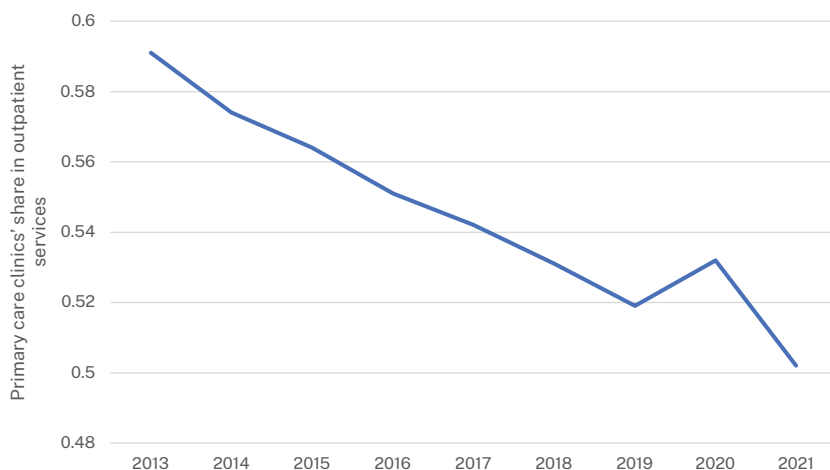


Figure 20.5: Primary care clinics' share of outpatient services in China: 2013–20.

Source: NHC (various years).

About half of service-related revenues in China's primary care clinics come from health insurance funds. Taking into account other revenues, a recent study reported that health insurance accounted for about 30 per cent of the total revenue primary care clinics in China receive (Yu et al. 2021). Given the importance of health insurance revenues, how those reimbursement payments are paid may well affect the behaviour of the doctors who work in the clinics. Currently, primary care is often delivered by salaried doctors in public clinics but the clinics are compensated by a fee-for-service schedule set by the government insurer. Fee-for-service compensates clinics according to the quantity of services rather than quality. An alternative approach would be a capitation system based on the population of patients served by the clinic.

While a capitation payment could provide an incentive for primary care providers to reduce their effort and costs including by referring patients to hospitals more frequently than necessary (Qian and Blomqvist 2014), it could be designed to improve service quality in primary care clinics and reduce the current emphasis on quantity.⁷ Blended payments involving both capitation and fee-for-service might reward both quality and quantity. For

⁷ See Qian and He (2018) about the impact of payment method on service quality in medical institutions in China.

example, reimbursement methods have been developed in the UK (e.g. the fund-holding approach), and in US managed-care plans, addressing over-referral issues and promoting more effective primary care.

Resource allocation between medical institutions and public health institutions

The extent to which resources have been directed to hospitals has constrained funding of public health institutions as well as primary care clinics.

In many countries, government agencies for public health manage immunisation programs for children and adults. They also coordinate programs to prevent and contain various types of epidemics such as different types of influenza. Their responsibilities can also include the enforcement of regulations that indirectly influence population health (Qian and Blomqvist 2014).

The Chinese Centre for Disease Control and Prevention (CCDC) is the main bureaucracy providing such public health services. There are four levels of the CCDC system (district–city–province–national) (Bingqing et al. 2020). The national-level CCDC is mainly responsible for research and guidance on public health service provision. Sub-national level CCDCs are responsible for the investigation and surveillance of infectious diseases as well as community-level public health service delivery. Primary care clinics and hospitals are expected to play a supportive role in public health service delivery (NHC 2021).

Figure 20.6 shows that CCDC's share of total health expenditure has been decreasing in recent years. Figure 20.7 also shows the annual growth rates of health workers in different health institutions, revealing that CCDC and its local branches have had consistently and substantially lower growth compared to that of hospitals and primary care clinics. Only in 2020 in the context of COVID-19 did the growth rate of CCDC health workers (at 3.69 per cent) get close to matching that of hospitals and primary care clinics.

20. THE CHALLENGE OF ALLOCATING RESOURCES FOR AN EFFECTIVE HEALTH SYSTEM

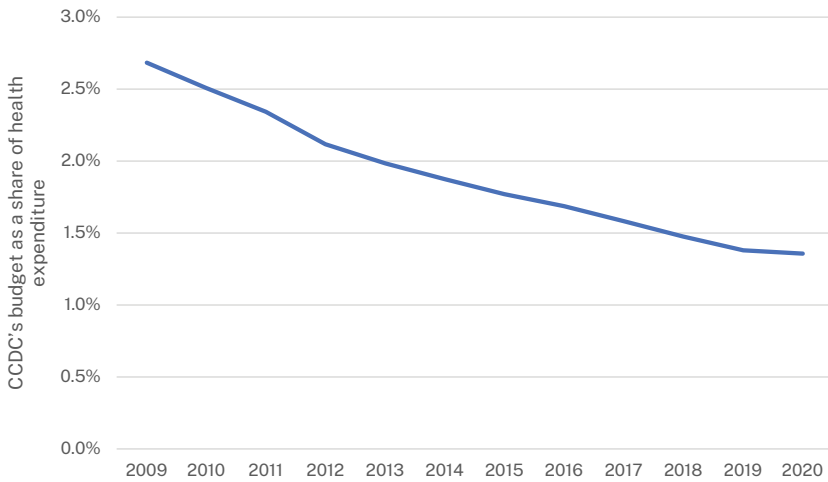


Figure 20.6: CCDC's budget as a share of health expenditure: 2009–20.

Source: NHC (various years).

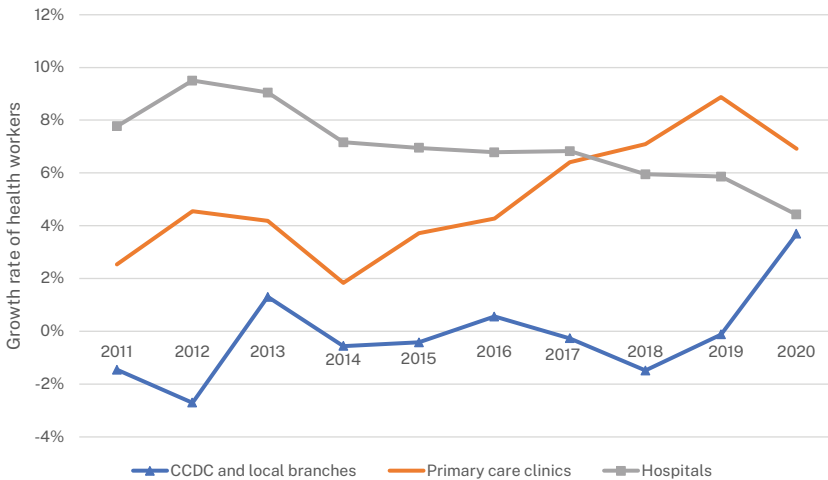


Figure 20.7: Growth of health workers in different health institutions (%): 2011–20.

Source: NHC (various years).

Figure 20.8 shows that the share of the CCDC budget for service provision has also decreased in recent years while the share of the budget spent on personnel increased. This suggests that the volume of public health service provision by CCDC is likely to decrease.

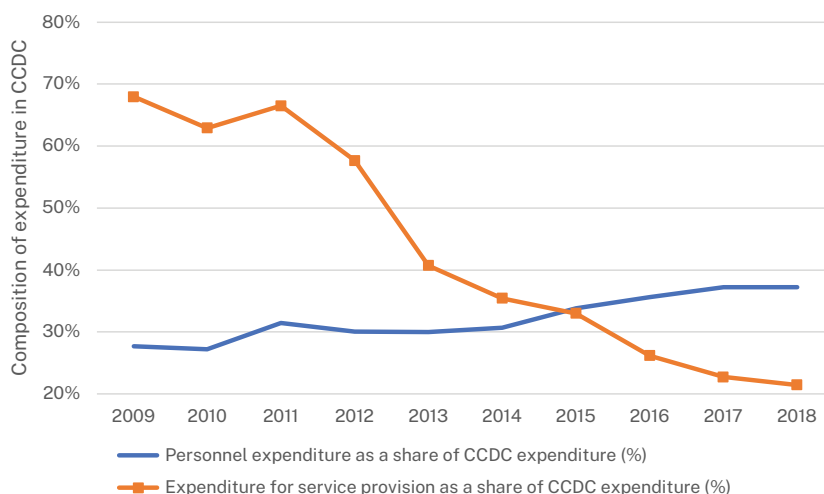


Figure 20.8: Composition of expenditure in CCDC: 2009–18.

Source: NHC (various years).

The CCDC relies very heavily on direct government fiscal resources (for more than 70 per cent of the system’s budget). In contrast, direct government grants comprise only a minor portion (about 9.7 per cent) of total public hospital revenue in 2019 (Table 20.3), with the remainder coming from sales of medicine and payments by individuals and insurers for the provision of health services. Primary clinics also rely heavily on service provision, with over 60 per cent of revenue being service-related in 2019.

Table 20.3: Breakdown of revenues for different types of medical institutions in 2019.

Medical institutions	Revenue from direct government subsidy (%)	Service-related revenue (%)
Public hospitals	9.7%	88.1%
Primary clinics	30.7%	61.5%
CCDC	73.6%	20.6%

Source: NHC (various years).

Despite its reliance on direct government support, CCDC’s share of total direct government health expenditure has been decreasing over the last decade, between 2009 and 2019 (Figure 20.9). Local government is responsible for the vast majority of government public health expenditure and this share has been increasing in recent years (Figure 20.10).

20. THE CHALLENGE OF ALLOCATING RESOURCES FOR AN EFFECTIVE HEALTH SYSTEM

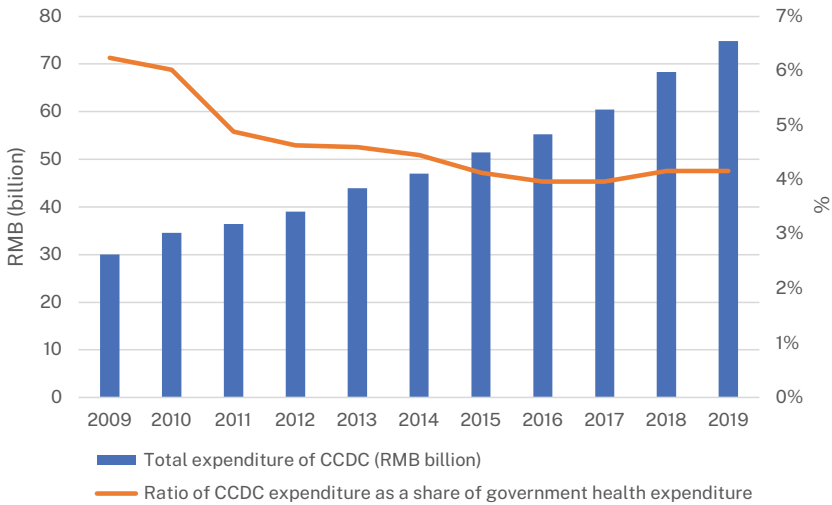


Figure 20.9: CCDC budget and its share in government health expenditure: 2009–19.

Source: NHC (various years).

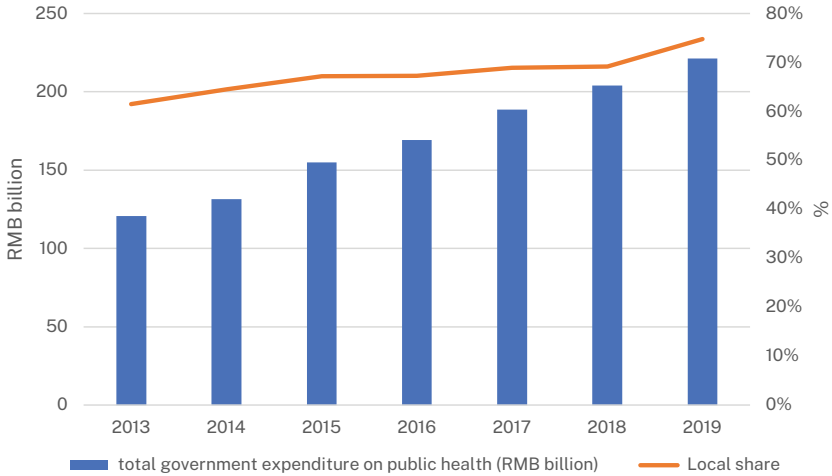


Figure 20.10: Government expenditure on public health and the local share of government public health expenditure: 2013–19.

Source: NHC (various years).

Incentives of bureaucrats and fragmented authoritarianism

The Chinese political system has been described as one of ‘fragmented authoritarianism’ (Lieberthal and Oksenberg 1988). According to this literature, policymaking and implementation in China has not been very effective, as decision-making was fragmented and disjointed across various government departments (Lieberthal 1992). Major social policies are managed and implemented at the local level, and local officials may have different objectives from policymakers at the central level. Also, each government agency has a strong incentive to maximise its own interests (and marshal information accordingly).

Since the mid-1990s, a performance evaluation system for local officials has been used by the state to address this misalignment of incentives between central and local government (Whiting 2004; Landry 2008; Gao 2009; Jiang 2018). Local officials’ careers depend on whether they fulfil selected policy targets set by the upper-level government (Li and Zhou 2005; Xu 2011; Jia et al. 2015).

While local bureaucrats look to follow the policy targets set by the upper-level governments, and to allocate resources and efforts based on those policy targets, the scope for discretion in implementation and the way in which rewards for performance are managed can lead to disconnects, as illustrated in the following sections.

Bureaucrats’ incentives in regional development and health care

Decentralised government financing of health care is worsening regional inequality. Health care is the responsibility of local governments, in particular city/county-level governments, rather than central government, both to fund healthcare provision and to regulate health insurance. With decent regional economic development, local capacity to provide health services can be improved, as is especially the case in more developed regions. However, in less developed regions, the fiscal budget of local governments is rarely enough to fund health, and social insurance is also reliant on the capacity of the local economy to pay. These facts reinforce regional inequality of health care.

Further, many provincial-level governments have strong incentives to support regional economic development policies. As previously discussed, in contemporary China, many of these regional development policies are metropolitan area-oriented to take advantage of the urban agglomeration effect. Accordingly, provincial bureaucrats are encouraged to allocate health resources to the major city in their region to attract people to migrate and work there. Accordingly, while there have been a lot of government initiatives aimed to equalise access to basic public services,⁸ funding has often been directed to well-equipped hospitals concentrated in large cities.

Bureaucrats' decision-making in reforming payment methods in health reform

The failure to relate service payments to service quality in primary care clinics is also related to bureaucrats' behaviours. Local government has a monopoly in managing health insurance and the social insurers themselves generally have little incentive to improve the affordability of healthcare services or to take full advantage of market mechanisms such as competition and service purchasing to promote the efficiency or effectiveness of the suppliers of healthcare services. Improving the effectiveness of social insurance in addressing affordability and improving its capacity to influence service quality and efficiency is the responsibility of the local officials in the design and regulation of social insurance.

Local governments compete with each other because cadres' promotion prospects are highly dependent on their perceived local work performance, including GDP growth, among other performance measures (Chan and Gao 2008; Xu 2011). When officials have multiple targets to fulfil, there is a tendency for them to pursue the more measurable tasks and in the health field these include accumulating more surpluses for insurance funds or promoting enrolment in social insurance plans rather than improving healthcare service quality, health outcomes or affordability. The measurable tasks have greater visibility and are hence more rewarding for officials. For example, in the 12th Five-Year Plan (FYP, 2011–2015), the coverage of the pension scheme for urban residents was pledged to reach RMB357 million by 2015. The 12th FYP also set the target for the annual growth rate of

8 Including those initiatives to address the equalisation of accessing public services and those to equalise the fiscal capacity across local governments in different regions.

health insurance enrolment of at least 3 per cent. It is reported that in many counties, enrolment is inflated to appear to meet the target set by the top leadership (Qian 2011).

Government's incentives in allocating grants to public health institutions

A key explanation of the continuing weaknesses of China's public health system suggested here involves the incentives and performance information for local cadres. These bureaucrats tend to respond quickly to observable and more rewarding measurements (Wilson 1989; Holmstrom and Milgrom 1991, Qian 2015).

The imbalance in evaluation indexes has also contributed to the comparatively low degree of investment in public health. The performance evaluation system for health bureaucrats is skewed towards observable outcomes, leading local officials to invest more in the construction and expansion of large hospitals at the expense of preventive investments. While some indexes of public health are included in the performance evaluation system for health officials (including CCDC technocrats) (NHC 2015), such as vaccination rates, public health campaign enforcement and the success rate of public health emergency management, the policy outcomes of preventive interventions are difficult to observe and more emphasis is given to the measures used for health care (e.g. volume of acute care, efficiency in hospital bed occupation rates, efficiency in human resource allocation).

Discussion and conclusions

Over the last decade, the actual resource allocation pattern reveals an unintended consequence of the Chinese health reforms. While the total amount of fiscal subsidy to primary care clinics has increased significantly, hierarchies between hospitals, between medical institutions and between places have emerged, creating a huge disparity between grassroots primary care and large hospitals in particular.

This chapter argues that the misallocation of resources in the Chinese health system is to a large extent a consequence of the incentives of bureaucrats in the central and local levels of governments. Local health bureaucrats want to allocate resources to the areas in which their performance is more rewarding (such as health insurance enrolment rates and volume of acute

care) compared to those areas in which the performance cannot be as easily measured quantitatively (e.g. service quality, prevention of public health crises). Further, the tension between the multiple objectives of local government (e.g. between regional economic development and equalisation of access to health care) is contributing to the concentration of resources spatially, and inequality across and within regions.

Given there is very limited political participation and political controls of the legislature, bureaucrats' roles are critical in policymaking and implementation in China. How to motivate bureaucrats by addressing the misalignment of the incentives between the central-level policymakers and bureaucrats is critical (O'Brien and Li 1999; Gallagher 2017; Gilli et al 2018; Qian 2018). The performance evaluation system for cadres can shape the incentives of bureaucrats to some degree but also have some unintended consequences. As we suggested in this chapter, the performance evaluation system tends to highlight indexes related to economic performance which may lead to resource misallocation across regions and medical institutions. Further, the performance evaluation system tends to highlight those more visible and measurable indexes, which may lead to under-allocation of resources to the public health system.

A major policy implication from the chapter is the need to impose more appropriate incentive-compatible policy initiatives for health service provision, health insurance and the public health system. Ensuring local bureaucrats' incentives to meet these policy targets could be very important. The most recent policy initiatives can be conceived as a continuation of the 2009 health reform through which substantially more resources are being allocated to the health system by topping up the policy priority of public health and primary care. In the 14th Five-Year Plan, released in March 2021 (State Council 2021), enhancing inputs in primary care clinics and public health institutions have been highlighted as major policy targets. In May 2021, a vice-ministerial level government agency, the National Administration for Disease Control and Prevention, was established. The restructure of the bureaucracy is expected to address the problem of underinvestment in infectious disease prevention.⁹

9 See article 13 in the government action plan for the health reform initiatives in 2021, at: www.gov.cn/zhengce/zhengceku/2021-06/17/content_5618799.htm, accessed 28 September 2021.

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21

Service delivery reform in Taiwan: A case study of the Safeguard Happiness Station

Helen K. Liu¹

Abstract

The transition from public–private partnerships (PPPs) to network governance is complex and involves a number of dynamic activities because, in reality, governments often need to address both PPPs and networks together. The purpose of this study is to examine this transition process from PPPs to network governance. In this study, we adopt Klijn and Teisman’s (2003) framework to examine the Safeguard Happiness Station project in Taiwan in order to explore incentives and conditions as well as the layering process and mechanisms for transitioning from PPPs to network governance. Our case illustrates incentives and conditions for the layering process including (1) problems associated with the structural devolution embodied in large-scale vertical and horizontal specialisation, (2) fear factor,

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(3) ease of substantial reforms and technical environments, and (4) causes of the paradigmatic shift. Furthermore, the layering process and mechanisms include interdependency, building internal and external networks, an audit network and a resource network. Finally, this case demonstrates how the layering process transits PPPs into networks and how the local government could utilise such a process to achieve its policy objectives.

Keywords: public–private partnership; governance; network; service delivery reform; Taiwan.

Introduction: Transition from new public management to collaborative governance

New public management (NPM) and collaborative governance (CG) are two distinctive public administration reforms. NPM has transformed the public sector to be outcome-driven (Christensen 2012) and has in particular established public–private partnerships (PPPs) to improve service efficiency and effectiveness (Thatcher 1995; Osborne 2006). On the other hand, CG has effectively expanded the public sector by drawing on non-profit, private and a wide range of stakeholder organisations to mobilise resources and to build networks to achieve complex public goals (Kettl 1993; Crosby 2010; Donahue and Zeckhauser 2011; Jing and Hu 2017). However, reforms do not happen overnight. One dominant hypothesis regarding the transition from NPM to CG suggests a layering process, in which reforms supplement or complement one another in a sedimentation process (Christensen 2012). Instead of replacement, constant rebalancing, adjustments, continuities and mixtures of the old and new reform features are evident in the process. That is, reforms are added to previous reforms in a layering approach (Christensen 2012).

Previous studies summarise important transitional characteristics, incentives and conditions, outcomes and complications, and the challenges involved in the transition from NPM to CG (Osborne 2006; Christensen and Lægreid 2010; Halligan 2010; Lodge and Gill 2010; Christensen 2012; Wiesel and Modell 2014; Iacovino et al. 2015; Jing and Hu 2017). Klijn and Teisman (2003) propose an analytical framework for examining the network formation emerging from PPPs based on the Utrecht Centre

project, the Amsterdam South Axis and the Central Station project in the Netherlands. In their analytical framework, they acknowledge that actors in the partnerships are embedded in different networks, resulting in a complex system of decision-making and coordination, and the need to understand the actors, networks, interests and actions involved.

The purpose of this study is to examine the transition from PPPs to network governance instead of treating them as two separate processes. The reason is that, in reality, governments often use both PPPs and network management together. In this study, we adopt Klijn and Teisman's (2003) framework to examine the Safeguard Happiness Station project in Taiwan. More specifically, this study explores how PPPs transformed into network governance. What were the incentives and conditions for transitioning from PPPs to network governance? Furthermore, what was the layering process and mechanisms in the transition from PPPs to network governance? In Taiwan, as discussed in Chapter 1 (this volume) by Podger, Wanna, Su and Yang, the Taiwanese Government has adopted PPP strategies in order to provide infrastructure and deliver services, despite the relatively small size of Taiwan's government and its historical development. The transition from strong, centralised government to more devolved government working with the private and non-government sectors is still evolving in Taiwan and thus provides a unique opportunity for understanding how PPPs are transforming into network governance.

Analytical framework: The layering process

The transition from PPPs to CG is complex and involves a number of dynamic activities. Four main incentives and conditions regarding this transition are identified and summarised in Table 21.1, drawing on key recent literature about public sector reforms at the macro level (Osborne 2006; Christensen and Lægread 2010; Halligan 2010; Lodge and Gill 2010; Christensen 2012; Wiesel and Modell 2014; Iacovino et al. 2015; Jing and Hu 2017).

Table 21.1: Incentives and conditions for the layering process.

Incentives and conditions	Description	References
Problems associated with the structural devolution embodied in large-scale vertical and horizontal specialisation in NPM	<ol style="list-style-type: none"> 1. Pillarisation of the public sector: a lack of cross-functional thinking and flexibility 2. Undermining of political control 3. A lack of a strong and unified sense of values resulting from diverse economic theories 4. Competitive tendering costs undermining efficiency 5. Practices under NPM too close to the private sector environment 	Christensen and Lægheid 2010; Halligan 2010; Christensen 2012; Iacovino et al. 2015
Fear factor	The need for administrative leaders to tighten government control, share information and coordinate power among agencies to address external threats	Halligan 2010; Christensen 2012
Ease of substantial reforms: Original political-administrative structure and traditions; technical environments	Environmental factors, specifically the process of pursuing modern reforms to address complex problems, may take different paths in different countries, depending on their respective political-administrative structures and traditions, in addition to the environmental and temporal contexts	Christensen and Lægheid 2010
Causes of the paradigmatic shift	Disappointment, surprise and technology	Lodge and Gill 2010

Source: See sources listed throughout table.

First, a typical incentive involves adjusting the affected pillar-like public sector layout to allow greater integration based on coalesced values and trust (Christensen and Lægheid 2010; Christensen 2012). Christensen (2012) explained how this drew on both vertical and horizontal reforms. In the vertical dimension, public administration executives use more central resources to coordinate subordinate institutions and more potent instruments of central control to reclaim the command authority of cross-functional management and to pursue uniform policies across levels. In contrast, in the horizontal dimension, cross-sectoral bodies, programs or projects could be progressively employed to cut across the traditional boundaries applied under NPM practices and to adjust the ‘pillarisation’ in public administration induced by strong sectoral specialisations.

Second, the ‘fear factor’ is an incentive that has advanced the evolution from NPM to CG (Halligan 2010; Christensen 2012); it closely corresponds with the impact of globalisation. Inter-organisational collaborations within networks became important to address shared threats, requiring different agencies to have compatible structures with a convenient information flow and more straightforward management methods. Governments’ recent ‘tightening-up’ practices are considered to be consistent with the reintegration and recentralisation focuses under the CG concept (Christensen and Lægheid 2010:258). It has paved the way for either taking pre-emptive measures against potential crises and disasters in advance or effectively coping with the aftermath of these threats.

Furthermore, the ease of substantial reform depends on the original political–administrative structure, traditions and technical environments (Christensen and Lægheid 2010). Environmental factors also contribute to the transition. Specifically, the process of addressing complexity through modern reforms may take different paths in different countries, depending on their respective political–administrative structures and traditions, as well as their environmental and temporal contexts.

Last, there are three causes of the supposed paradigmatic shift: disappointment, surprise and technology (Lodge and Gill 2010). ‘Disappointment’ is deeply correlated with the motivation and political pressure to seek policy transformations. ‘Surprise’ refers to the idea that policy instruments all have their own assumptions’ loopholes; hence, new policy problems may not be adequately addressed by existing processes. Like the demise of typing pools with advances in computers, ‘technology’ mainly serves as a metaphor for technical advancements in public administration that trigger the abandonment of outdated management models.

Jing and Hu (2017) echo Christensen and Lægheid’s (2010) argument that the enhancement of collaborative networks among agencies is a natural consequence of the transition in the relationship between government and contracted organisations. The evolution of this transition is itself an automatic and unintended process that takes place through three operating mechanisms, including mutual trust generation, resource and capability acquisition, and the consolidation of collaborative accountabilities (Jing and Hu 2017).

To capture the process of the transition from PPP to CG at the micro level, we turn to Klijn and Teisman's (2003) framework. Their framework focuses on the key actors involved, their interests and actions and their emerging networks during the transition. In particular, they examine cases in the Netherlands to reveal the decision-making process during the transition from PPP to CG. Their framework is effective because it helps to identify relevant stakeholders beyond the two parties in the PPP. Additionally, it measures the motivations and interests for forming relationships with other relevant stakeholders outside the partnerships. This framework helps to identify the transition factors, particularly mutual trust generation, resource acquisition and accountability consolidation.

Case study and interviews

Following Yin (2004), we select a unique case in Taiwan, the Safeguard Happiness Station project, to further examine the transition process from PPPs to network governance. To reveal the transition process from PPPs to network governance, we conducted 10 in-depth, face-to-face interviews in 2015 with implementers of the Safeguard Happiness Station project. These included a local official, a social worker responsible for the initiative, local school representatives and convenience store employees with reported cases, etc. (see Appendix A for a list of interviewees). All interviews were guided by interview scripts, which were prepared prior to the interviews.

Safeguard Happiness Station project

The Safeguard Happiness Station project was launched in 2013. As of February 2021, 28,871 students have received meals, and the project is still operating (Education Department of the New Taipei City Government 2021); more recently, the project has responded to the COVID-19 pandemic which has threatened the livelihoods of some families. The project aims to provide timely assistance to needy teenagers and children (under the age of 18). In addition to picking up free meals at convenience stores, these children can be supported with follow-up assistance from government agencies through the project (Lu 2021).

The Safeguard Happiness Station project is part of a broader social protection information system, the High-Risk Family Integrated Safety Net, in New Taipei City, Taiwan. The program aims to identify children who are in difficult circumstances at an early stage, are neglected or have safety concerns. To do so, New Taipei City partnered with four major convenience store chains (i.e. 7-Eleven, Family Mart, OK Mart and Hi-Life), to provide food assistance by offering emergency food relief to children at local convenience stores. The prevalence of 24-hour convenience stores in the city (approximately 2,000 stores) allows the program to create an extensive social safety net that provides immediate relief to children and teenagers under 18.

To ensure that this partnership works smoothly, the city government has had to consolidate a strong network to coordinate agencies across different departments through a one-stop window. To support the services delivered at local convenience stores, the city government has also worked with primary schools (206) and built a new policy network to promote and monitor the implementation of this policy. As a result, the officials from the New Taipei City Hall realised that they were no longer just managing PPPs; rather, they needed to oversee various networks to ensure the implementation of the PPPs. This therefore provides an excellent case to document the transition from PPPs to CG, following Klijn and Teisman's (2003) framework.

Formation of networks from partnerships

Table 21.2 shows the key actors involved in building networks to sustain the program's PPPs.

Table 21.2: Actors in the Safeguard Happiness Station Project.

Categories of actors		Interests	Means	Roles	Background
Local governments					
Social Welfare Department	Emergency relief and identifying high-risk families (Liu and Chen 2013)	The High-Risk Family Service Management Centre uploads the information provided by the convenience store to the school, and the Social Bureau contacts and provides further assistance to disadvantaged families based on the information returned to schools (Interview records of New Taipei City Government and New Taipei City Elementary School A)	Data processor and provider welfare service (Tsai 2014)	The High-Risk Family Service Management Centre links different departments; according to the attributes of the case, it assigns the following units to be responsible for subsequent counselling and intervention (The principal of Taishan district's New Taipei City Municipal Mingzhi Elementary School C)	The Labour Affairs Department is included in the High-Risk Family Integrated Safety Net (Peng and Huang 2015)
Labour Affairs Department	Assisting needy families in becoming employed (Tsai 2014)	Through the understanding of the case, a job is introduced to the family in need (Interview records of New Taipei City Government and New Taipei City Elementary School A)	Helpers	The Police Department is included in the High-Risk Family Integrated Safety Net (Peng and Huang 2015)	
Police Department	Public security and crime prevention (Tsai 2014)	Concerned about young people taking meals at night	Crime preventers (Tsai 2014)		

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Categories of actors	Interests	Means	Roles	Background
<p>Education Department</p>	<p>Making good use of the power of education to turn teachers into social workers (Tsai 2014)</p>	<p>The Education Department is responsible for establishing a SOP with convenience stores and liaising with the counselling office of the schools and 206 principals (The Secretariat of New Taipei City Government) (Interview records of New Taipei City Government and New Taipei City Elementary School A)</p>	<p>Policy promoters (Liu and Chen 2013)</p>	<p>The Education Department and High-Risk Family Service Management Centre have maintained cooperation, and the Education Department has also cooperated with convenience stores (Interview records of New Taipei City Government and New Taipei City Elementary School A)</p>
<p>Convenience stores Family Mart: 716 stores 7-Eleven: 852 stores Hi-Life: 301 stores OK Mart: 174 stores Total: 2,043 stores</p>	<p>Corporate social responsibility/organisational culture (Interview records of New Taipei City Government and New Taipei City Municipal Xiulang Elementary School)</p>	<p>Providing students with food (to the value of NTD80) and reporting cases to the High-Risk Family Service Management Centre (Interview records of New Taipei City Government and New Taipei City Elementary School A)</p>	<p>Service providers</p>	<p>Schools in general maintain a good network with neighbouring convenience stores (Interview records of New Taipei City Government and New Taipei City Elementary School A)</p>
<p>Peripheral actors</p>	<p>Assistance and care for disadvantaged children (Interview records of New Taipei City Government and New Taipei City Elementary School A)</p>	<p>After the counselling room of the school receives information, the counselling room conducts counselling with and attempts to understand the students, and it asks the teacher to conduct observations and family visits; finally, the school will report the second review and counselling to the Education Department (Interview records of New Taipei City Government and New Taipei City Elementary School A)</p>	<p>Register creators (Tsai 2014)</p>	<p>Schools are scattered in various towns and cities (Interview records of New Taipei City Government and New Taipei City Municipal Xiulang Elementary School)</p>

Categories of actors	Interests	Means	Roles	Background
206 school principals of primary schools	Maintaining good interactions with convenience stores (Interview records of New Taipei City Government and New Taipei City Elementary School A)	Visiting and checking the convenience stores every three months (Interview records of New Taipei City Government and New Taipei City Elementary Schools A and B)	Inspectors (Interview records of New Taipei City Government and New Taipei City Elementary School A)	The school asks the principal to visit nearby convenience stores (Interview records of New Taipei City Government and New Taipei City Elementary Schools A and B)
Taiwan Futures Exchange	Charity and contributing to remote areas (Interview records of New Taipei City Government and New Taipei City Elementary School A)	The Taiwan Futures Exchange developed a 'value-added charity' policy to donate NTD30 million for a food bank, which was accompanied by the procurement and delivery services of a store in Taiwan, serving needy families in 22 counties (Interview records of New Taipei City Government)	Resource providers (Interview records of New Taipei City Government)	Cooperating with stores in Taiwan and seven financial institutions (Interview records of New Taipei City Government and Elementary School A)

Note: SOP=standard operating procedure.
Source: See sources listed throughout table.

Key actor in the partnership: The government

The program receives strong public support from the city mayor and is closely supervised by the deputy mayor, and it receives considerable media attention. Consistent with the Government Procurement Act, the government purchases services/goods from convenience stores and engages with all the convenience stores in the towns concerned. The government has simplified the reporting system to a one-page alert sheet, which only requires information on name, attended school and home address. The government has also created a one-stop window for trained partners to report to the High-Risk Family Service Management Centre. The convenience stores were granted the flexibility to run their own training on how to deal with sensitive cases and to assist children in completing the report form without undermining their self-esteem. The government is responsible for auditing (i.e. checking all receipts) and monitoring (i.e. sending school principals to visit the stores as community engagement activities). For funding, the government is increasingly seeking charitable donors to support the project, such as the Taiwan Futures Exchange.

Key actor in the partnership: Convenience stores

The four enterprises involved made it clear that the food provided was charged as priced. However, as they are the ones dealing directly with the children in need, they need to conduct training to educate their frontline workers on offering meals and on the reporting protocols. For instance, they are required to provide fulfilling food, not just snacks; they are informed on how to adapt when children are unwilling to provide personal information; and they are trained to provide services based on the good faith principle, that is, adopting a flexible verification standard. Moreover, the enterprises' top management team communicates directly with the responsible government unit, as it is not recommended that government officials talk to individual store managers.

Key actor in the partnership: Schools

The Education Department of the New Taipei City Government is an essential part of the High-Risk Family Integrated Safety Net because the city government has worked with the local school system to build a community network that monitors the program's implementation. The Education Department and the High-Risk Family Service Management Centre have

worked closely together. In addition, the Education Department has cooperated with convenience stores since 2009 on the 'Happiness Breakfast' project, which provides breakfast subsidies for underprivileged students, laying a solid foundation for later cooperation. As intended by Hou Yu-ih, the deputy mayor of New Taipei City, the Education Department is the driver of the Safeguard Happiness Station project. Deputy Mayor Hou hopes that, with the lead of the Education Department, as many as 20,000 teachers can also play the role of social workers. The Education Department coordinates with convenience stores to map out the details of the project. The standard operating procedure (SOP) is designed to be convenient for the stores, while a smooth line of communication is in place to establish mutual trust on both sides. The Education Department also promotes the project and holds training sessions for local schools' counselling offices and school principals to facilitate the project (Liu and Chen 2013; Tsai 2014).

Junior high schools and primary schools are scattered throughout New Taipei City, providing timely care and assistance to disadvantaged students in the neighbourhoods. When joining the Safeguard Happiness Station project, schools are responsible for speaking to students about the policy. Once the High-Risk Family Service Management Centre informs a school's counselling office about at-risk students, the counselling office takes charge, meets with the students, and has the students' home-room teacher pay extra attention to these students and conduct home visits. Afterwards, the counselling office keeps records and verifies the students' condition and monitors the school's intervention measures before reporting to the Education Department and the High-Risk Family Service Management Centre. Continuous care is also given to students who are enrolled in the project (Tsai 2014).

Actors and interdependencies in the PPP

Table 21.2 describes the parties involved in the Safeguard Happiness Station project and the roles the actors play, the means they contribute and their background. As mentioned earlier, the Safeguard Happiness Station project launched by the New Taipei City Government has been in operation since 1 January 2013. Joined by the city government's Education Department, Labour Affairs Department, Police Department and Social Welfare Department, along with convenience stores, schools and the Taiwan Futures Exchange, the project aims to free children and teenagers under 18 from hunger. Through the project, they can receive meals worth

NTD80 from convenience stores. The convenience stores then share the teenagers' and children's information with other departments, which can provide further assistance. Four major convenience store chains participate in the project. While serving as the stations where the service is offered to teenagers and children, these convenience stores allow students to seek help and access resources from more channels. In addition, through the project, more high-risk families were identified and introduced to allow follow-up tracking and care.

Internal network hub: High-risk family integrated safety net

The High-Risk Family Service Management Centre, supervised by the Social Welfare Department of the New Taipei City Government, is the dedicated agency managing the High-Risk Family Integrated Safety Net, which connects 10 agencies within the city government. Shiou You-cheng, the principal of Taishan district's New Taipei City Municipal Mingzhi Elementary School, points out that the service management centre connects resources from different departments. It designates administering agencies to arrange further consultation, intervention and emergency assistance services for identified high-risk families based on their respective needs (Liu and Chen 2013; Peng and Huang 2015), and thus forms an internal network within the government to manage this new initiative.

In the Safeguard Happiness Station project, the High-Risk Family Service Management Centre shares the information provided by convenience stores with schools. The schools can view the uploaded information and check whether the students receiving help are from high-risk families. If so, the schools can report back to the High-Risk Family Service Management Centre, and the service centre will incorporate these students into the integrated safety net and keep a record of them. Designated officials can then step in and provide further support for the families. Additionally, the Social Welfare Department, which is in charge of coordinating donations from the private sector (such as resources from the food bank, described below), approves and provides meal subsidies via the Education Department. The Social Welfare Department is also in charge of collecting, documenting, processing and analysing relevant data (Tsai 2014).

The Labour Affairs Department of the New Taipei City Government is also part of the High-Risk Family Integrated Safety Net. The goal of the project is to address diverse family issues, often resulting from social and economic

changes. The Labour Affairs Department provides high-risk families with employment training, consultation services and assistance, helping those from underprivileged families find jobs, sustain themselves and overcome their problems (Tsai 2014; Peng and Huang 2015).

The Police Department of the New Taipei City Government is also involved (Peng and Huang 2015). Not only does the department have to maintain public order, secure social safety and prevent criminal activities, but it also has to report high-risk families and identify teenagers in need of care and help. In the project, the Police Department pays particular attention to those who pick up meals at night. Given that some teenagers are not enrolled in high school after graduating from junior high school, the Police Department brings them into the system to reduce juvenile delinquency through the project (Tsai 2014).

External network hub: Convenience store chains

Convenience store chains have taken up corporate social responsibility as an integral part of their corporate culture. Launched in 2007 by the Ministry of Education and the Ministry of the Interior, the 'Safety Corridors and Service Stations of Love' initiative partnered convenience stores with schools. Convenience stores joining the project serve as a 'Station of Love' or a 'Child Escort Shop', established to provide help to students at schools in the neighbourhood and to ensure children's safety on their way back home from school. As participants in the Safeguard Happiness Station project, convenience stores serve as service providers. Stickers for identification are placed outside the stores, and staff members are trained with an easy-to-follow standard operating procedure (SOP): needy students come to the store and choose a meal with a drink under a cap of NTD80. Staff members then ask the students to sign the receipt and allow them to dine in the store. Next, the staff report to the High-Risk Family Service Centre within 24 hours. Finally, the service centre and other relevant agencies track and provide further assistance to the youths.

Audit network hub: The school system

The schools are integral to building a community network that monitors the implementation of the program. There are more than 200 primary schools in the communities covered by the program. After the initial report to the High-Risk Family Service Management Centre, the relevant schools were notified within 24 hours to continue subsequent care. Principals also

monitor local stores every three months to check whether the stores are adhering to protocols and the staff understand the program. This emerging school-community network could be established within a short time because it was built on previous initiatives, such as ‘Safety Corridors and Service Stations of Love’. This initiative allows children to go into local convenient stores whenever they feel unsafe and store employees have been trained to assist the children. Building on this previous initiative, the audit network on the main partners, convenient stores, has thus been built by the school system.

Donor network hub: Private and non-profit organisations

The program is not without challenges. One of the greatest concerns raised by critics regarded possible waste and fraud because the program did not require eligibility checks before giving out the food to children. To keep the flexibility of the program while avoiding waste of taxpayer money, the city government decided to raise funds from voluntary contributions by the public who supported this experiment. The Taiwan Futures Exchange was one of the main donors to the program, looking to fulfil its corporate social responsibility. In 2015, the Taiwan Futures Exchange and seven major financial institutions pooled together NTD30 million to establish a food bank with the aim of contributing to society. With the food supply and delivery services provided by Carrefour Taiwan, the initiative has served underprivileged families from 22 cities and counties, including New Taipei City. The total donations from 2015 to 2020 reached NTD210 million (Yu 2020). City and county governments were commissioned to survey and evaluate the needs of their citizens, and then the Taiwan Futures Exchange purchases food and goods through a centralised procurement process from Carrefour Taiwan, which dispatches the resources to food banks across Taiwan and to district offices’ social welfare centres. Ultimately, local social workers and volunteers send food and goods to families in need.

Discussion

This case demonstrates how building an effective partnership is not merely about designing an acceptable contract. Implementing the partnership and monitoring it requires strong networks both within the government and outside the government. These networks were established because they are

needed to ensure that the partnership is achieving its original objective. In the case of the Safeguard Happiness Station project, what started from simple partnerships with private sector actors evolved into network building.

Building a network for improved accessibility

Since the launch of the program in 2013, it has yielded effective results, identifying more than 1,900 at-risk families, distributing more than 28,000 meals, and building a strong community network of 2,000 convenience stores, 206 primary schools and charitable donors. In addition, intergovernmental coordination has been improved (New Taipei City 2021). Our case supports earlier studies showing that CG has evolved to resolve problems associated with the structural devolution embodied in large-scale vertical and horizontal specialisation in NPM (Christensen and Læg Reid 2010; Halligan 2010; Christensen 2012; Iacovino et al. 2015).

For instance, the program has brought effective coordination into the daily tasks of departments, and the chairperson of the district has maintained close relationships with the schools. The reporting of high-risk cases to the High-Risk Family Service Management Centre also alerts the police and its teenage-response team to the situation in the district. Subsequently, being aware of the particulars of a case, the Labour Affairs Department is able to offer jobs to families in need. The program has also inspired policy diffusion. The program has been funded by private resources worth over NTD12 million since 2013 (New Taipei City 2021); furthermore, there are now four stock exchanges involved, including the Taiwan Stock Exchange and the Taiwan Futures Exchange (Taiwan Stock Exchange Newsletter 2015), which have further raised substantial resources for food bank programs operated by another government department.

Employees of local convenience stores are able to follow the guidelines because proper procedures are written clearly. Assisting needy children in obtaining food, completing the forms and faxing the forms to the High-Risk Family Service Management Centre for reporting purposes with receipts can all be done efficiently. Nevertheless, there are exceptional circumstances where the government needs to follow up with local convenience stores. For instance, when children incorrectly provide their school affiliation, either accidentally or on purpose, the schools will not be able to follow up on the cases. In the SOP, once the high-risk family information and communication technology (ICT) system receives a report from a convenience store, the next morning, the affiliated school is required to follow up on the case within the same day

and report back to the High-Risk Family committee regarding the case for further evaluation. In cases where affiliated school information is missing, particular actions are needed. Therefore, the government has started to ask local primary schools to take more active roles in working with local convenience stores.

Building a stronger network from existing relationships

Previous literature has found that by supplementing networks to existing coordination mechanisms, significant enhancements in adaptability and flexibility can be observed. Coordination embodied in the interactions among interdependent actors also adds to the effectiveness of service delivery (Christensen 2012; Wiesel and Modell 2014). The Safeguard Happiness Station program involves an internal coordination network by connecting existing policies and initiatives.

For instance, a well-established High-Risk Family Service Management Centre existed within the government to ensure efficient coordination of departments, including social services, education, health, police, and primary schools and high schools. The primary purpose of the centre's ICT case management system is to inform the different government agencies that will handle high-risk families, such as the Education Department, Social Welfare Department, Labour Affairs Department and Police Department. This case management system is an essential technology to ensure the sustainability of the partnership and its expansion to a network system, which echoes Lodge and Gill (2010).

Additionally, as mentioned earlier, prior relationships between the Education Department and convenience stores laid a foundation for building the food assistance program. For example, convenience stores had voluntarily partnered with neighbourhood schools to set up emergency safety stops that provide a safe place for children to stop by when they feel strangers are following them or when they feel unsafe. The stores would then offer help and contact affiliated schools and agencies. The deputy mayor is the head of an interdepartmental committee and thus gives this committee the legitimacy to mobilise resources and obtain information from across the departments. A thorough SOP has been written regarding how each agency needs to respond to the information from discovering high-risk families, following up and providing solutions to support the families for a six-month period. This existing system also makes it easier for the city government to

build a one-window policy with its private partners. The city government has delegated one person to be in charge of all communication with the four private partners and allows approximately 2,000 local stores to fax any discovery of a high-risk family to a database of the high-risk families.

Building a network for accountability and mentoring

Our case also confirms prior studies, which suggest that governments need to design systems to ensure accountability and control through information-sharing and coordination with contracted agencies to address external threats (Halligan 2010; Christensen 2012).

Being aware of the existing relationships between the convenience stores and local schools, the New Taipei City Government set up a protocol to activate the local network to monitor the implementation of the policy and to create a safety net when the SOP did not work. Local schools are now also in charge of checking whether local convenience stores have properly set up signs bearing the policy slogan so that children know that they can obtain emergency food in the stores. Such collaboration is essential when a private partner is required to perform actions that cannot be specified in a formal contract or agreement. Unobservable performance can be reinforced through informal relationships, such as community ties between schools and local convenience stores. The resultant network strengthens ties between schools and local convenience stores ensuring that actions are taken in more informal ways and disputes can be resolved without hurting the formal partnerships.

Conclusions

This case demonstrates how the adoption of a network as a policy tool can maintain and monitor and extend an existing partnership, consistent with Klijn and Teisman's 2003 study. This case demonstrates how the local government was able to utilise the existing coordination system and build new and more effective ways to achieve its policy objectives, in this case to discover and better support high-risk families. In other words, the local government did not have to build everything from scratch. Instead, it set up new collaborative partnerships over an established and reasonably robust system. Adopting networks helped the local government overcome the challenges of managing its partnerships with the private sector. In creating

these networks, the local city government has also faced novel challenges that require new attention and governance skills from its employees. Future research might explore further whether the success of such a network governance in Taiwan is linked to Taiwan's particular institutional arrangements or a culture that supports collaboration.

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Appendix: Interview list

Org. ID	Date	Position	Name of organisation
2601	15 August 2015	Officer	New Taipei City Government
2602	15 August 2015	Project manager	New Taipei City Government
2603	15 August 2015	Social worker	New Taipei City Government
2604	25 August 2015	Officer	Education Department, New Taipei City Government
2605	27 August 2015	Counsellor	Counselling office, elementary school A
2606	27 August 2015	Employee	Convenience store B
2607	15 Sept. 2015	Principal	Elementary school
2608	15 Sept. 2015	Employee	OK Mart convenience store
2609	16 Sept. 2015	Principal	Elementary school C
2610	16 Sept. 2015	Employee	Convenience store B

Source: Author's summary.

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Aged care in Australia: Current approaches and emerging challenges

Mike Woods

Abstract

This chapter examines how Australia's national government engages with the market and civil society to deliver aged care services. The capabilities and capacities of charitable organisations and for-profit businesses are employed to deliver aged care services within a regulated quasi-market environment that is increasingly subject to provider competition. The government has two main roles: to provide public subsidies so that older people in need have access to essential services, and to impose regulation where it is needed to correct for market failure and to protect this vulnerable cohort of the population. Successive governments have drawn on Australia's well-established open public inquiry processes to help shape its policy settings.

Australia faces significant challenges concerning system sustainability at a time of growing demand as population ageing continues. There is evidence of poor-quality care, constrained workforce availability, a high level of non-viability among providers and significant fiscal debt. Policy options include reducing demand for subsidised aged care by investing more in primary care and wellbeing, and improving the quality and effectiveness of the services, the efficiency of service delivery, and the equity of funding between consumers and taxpayers. Policy guidance is to focus on empowering consumer

choice and control, facilitating market incentives that enhance provider responsiveness to consumer needs and preferences, and proportionately regulating to deliver improved quality and safety. In addition, there are strong arguments that support greater funding contributions from those consumers who have greater income and/or wealth.

Keywords: aged care policy and funding; publicly funded services; market-based service delivery; consumer choice.

Introduction

The policies, programs, funding and delivery of aged care services vary significantly between countries. The different approaches to caring for the elderly reflect their unique and complex amalgam of history, culture, community expectations, financial capacity and institutional capabilities across government agencies, charitable organisations and for-profit businesses.

This chapter examines how Australia's national government currently employs the capabilities and capacities of charitable organisations and for-profit businesses to deliver subsidised aged care services within a quasi-market competitive environment while gradually removing excess layers of regulation. The chapter then explores the government's unfolding responses to the challenges of managing system sustainability while ensuring consumer choice and control, enhancing provider responsiveness and delivering improved quality and safety.

A note on the impact of the COVID-19 pandemic on aged care

This chapter was written during 2020–21 at a time when the immediate impacts of the COVID-19 pandemic were being felt worldwide. Older populations, especially those in aged care homes, were suffering and dying in the greatest numbers. Vaccinations were only starting to be rolled out. Toward the end of that period the risk to older people remained and while national economies were recovering, there was a significant overhang of public and private debt. Internationally, and domestically for Australia, the social, economic and fiscal impacts of COVID-19 remained uncertain.

As an introduction to the topic of aged care, this chapter commences with an understanding of what is meant by subsidised aged care services in the context of Australia's market-based economy.

Outside of Australia's aged care system, consumers transact with producers to purchase varying types and levels of goods and services to help them with their daily needs. Consumers exercise choice and control over their purchasing decisions and providers compete for their business. Governments intervene in those markets by way of consumer law and other regulation and intermediaries participate as agents for one side or the other. The government provides income support and other assistance to those in need.

The majority of people continue to rely on the market for these services as they age, as well as for modified and additional care services as their frailty, cognitive impairment, dementia or health needs change (Woods 2020). Many increasingly rely on taxpayer-funded (government) age pensions and other concessions to purchase their goods and services, as well as on support from their family, friends and other informal carers.

What is generally referred to as 'subsidised aged care services' in Australia is a subset of these services. This subset has been created by national government policy and it exhibits government intervention primarily through the availability of taxpayer-funded subsidies and an additional layer of regulation. The same services can generally be purchased in the market directly from a range of providers, including approved providers of subsidised care.

The remaining sections of this chapter provide the following:

- an outline of the formulation of aged care policy in Australia and the roles that two major public inquiries have played in setting that policy in the decade 2011–21
- an analysis of the drivers of current demand for aged care services, demonstrating the complexity of the forces at play
- an examination of the major forms of supply of services which are subsidised and regulated by the national government and its use of the charitable and for-profit sectors for service delivery within a regulated market environment
- an appraisal of the government's various responses to the overarching challenge of developing policies that strengthen future system sustainability while proving acceptable to the various stakeholders
- a deeper dive into how the government is able to enhance consumer choice and control through the reach of market forces by uncapping the provider market for the supply of subsidised aged care homes.

Aged care policymaking in Australia and the role of policy inquiries

A significant and widely accepted rationale for government intervention in the delivery of services to older people is to enable them have equity of access to high-quality care—often through direct provision at low or no cost, or through subsidies, price control and/or income support. Equally important is personally appropriate, culturally safe and linguistically relevant to ensure that the care is within a person's local region. A second rationale is to protect this particularly vulnerable group of consumers through enhanced consumer laws. In many countries, governments also intervene to overcome a range of market failures such as information asymmetry and poorly performing principal–agent relationships.

Australian Government intervention includes formulating policy settings and operational guidelines; establishing standards for the quality, quantity and safety of care and the skills of the workforce through legislation or self-regulation; empowering, resourcing and skilling regulatory oversight agencies; and providing an appropriate level of budget funding for subsidies to aged care consumers or to the service providers. The government also intervenes with additional support for older people and providers in rural and remote areas and to providers who focus on assisting special needs groups such as First Nations people, people from culturally and linguistically diverse (CALD) backgrounds and people who are homeless.

Aged care policymaking in Australia is the primary responsibility of the minister for health and aged care in the national government. In setting policy, Australian governments have, on occasions, sought input from open, transparent and objective public inquiries to provide advice that is in the long-term interest of the community as a whole—including consumers, providers and funders (taxpayers from current and future generations). Equally, governments have been known to make decisions which strongly reflected the ideology of the political party in power at the time or which were justified through the release of high-profile consultancy reports which could be shrouded in opaque processes.

Two arms-length institutions which are empowered to undertake policy inquiries are the Australian Productivity Commission and bespoke royal commissions. Both have broad powers to hold public hearings; gather information; call witnesses to give evidence and produce documents;

undertake replicable data analyses; release draft reports for public comment; and produce final reports and recommendations to government free of ministerial or bureaucratic influence.

The Productivity Commission is an independent permanent policy agency, headed by appointed commissioners, which has been created and protected by an Act of the national parliament. It has a predisposition to making recommendations which are founded on economic principles. Royal commissions are also independent, are headed by former judicial officers and tend to make recommendations which have a stronger legislative bias.

In 2010 the national government requested the Productivity Commission to undertake an inquiry into the reform of aged care and that agency delivered its report *Caring for Older Australians* the following year (Productivity Commission 2011). Nearly a decade later, in 2018, the national government undertook a further review through the establishment of a Royal Commission into Aged Care Quality and Safety which submitted its *Final Report: Care, Dignity and Respect* in 2021 (Royal Commission into Aged Care Quality and Safety 2021). In both cases, recommendations were submitted via a public report to the government of the day, but it remained the responsibility of that government to respond with decisions on specific policies, programs, funding mechanisms and regulations.

Policy recognition of the roles of consumers, not-for-profit organisations and the for-profit sector within a quasi-market framework

A review of Australian social service policymaking (Woods and Gilchrist 2020) has argued that: ‘policymakers are seeking to exploit the opportunity inherent in both institutional theory and neoliberal ideas, such as public choice, to influence consumer and service provider behaviour’. It was further argued that policymakers have: ‘sought to establish quasi-market environments intended to empower consumers and create incentives for providers, while creating institutional structures that sought to correct for market failures’ (p. 98).

Australia’s reforms of publicly subsidised aged care have been constructed on three broad policy pillars:

1. the primacy of consumer choice and control, with services being aligned to individual needs and preferences

2. the delivery of services by charitable organisations and for-profit businesses within a competitive but regulated quasi-market environment
3. the intervention of government through public subsidies as well as by regulation which protects this vulnerable cohort of the community, sets quality and safety standards and corrects for market failures.

The Productivity Commission's 2011 report presented empirical evidence that: 'consumer choice improves wellbeing, including higher life satisfaction, greater life expectancy, independence and better continuity of care'. The commission advocated for the benefits of competition between providers who were operating in: 'a more dynamic system, with enhanced incentives for greater efficiency, innovation and quality'. Further, the commission was critical of the prevailing risk-averse and overly prescriptive regulatory regime, proposing instead that the government's regulatory stance should: 'revert to a more appropriate role of ensuring safety and quality, protecting the vulnerable and addressing market failures' (Productivity Commission 2011:XXIX).

The three pillars approach was affirmed in a subsequent 2015–16 review of the future directions for aged care by a government-appointed Aged Care Sector Committee. Its Aged Care Roadmap report noted that its views broadly aligned with and continued the changes that commenced with the Productivity Commission's recommendations, while identifying areas for further action to respond to future challenges (Aged Care Sector Committee 2016:2). The report summarised the committee's vision for aged care as being where: 'Greater consumer choice drives quality and innovation, responsive providers and increased competition, supported by an agile and proportionate regulatory framework' (Aged Care Sector Committee 2016:3).

The 2021 report of the royal commission adopted a variation to this approach. It proposed two paramount principles: 'to ensure the safety, health and wellbeing of people receiving aged care, and to put older people first so that their preferences and needs drive the delivery of care' (Royal Commission into Aged Care Quality and Safety 2021:Vol. 1, 80). However, the royal commission gave little attention to consumer empowerment through choice and control, or to the benefits of provider competition within a market-based economy. Instead, it placed its emphasis on a rights-based approach to consumer entitlements through the development of revised aged care legislation.

The national government's response to the royal commission's report has been to adopt some of its proposals but to also continue its ongoing program of reform to enhance consumer choice and control and to foster market competition, as discussed later in this chapter.

Demand-side drivers of the need for subsidised aged care

The scope and scale of demand for subsidised aged care services in Australia are the products of a series of interacting factors. Demography is a primary driver but can be modified by such factors as government immigration policies, the current and future health and frailty of the elderly population and the availability of, and access to, alternative forms of care and support services. A 2017 review of the government's 2012 'Living Longer, Living Better' reforms concluded that it was difficult to determine the extent of unmet demand, given the complexity of these interacting factors (Commonwealth of Australia 2017:44).

Demography – the primary driver of demand

As at 30 June 2019 a little over 4 million Australian residents, or nearly 16 per cent of the population, were aged 65 and older (Australian Bureau of Statistics 2019b). Nearly 95 per cent of this cohort were living in the community in 2015, with only 5 per cent living in residential care such as nursing homes. However, as an indicator of the potential future need for care, over one-quarter of all older people lived alone (Australian Bureau of Statistics 2016).

A closer proxy for demand for care is the 2 per cent of the population aged 85 or older (at 30 June 2019), when they are more likely to be frail, to have developed dementia or to have multiple forms of ill health (Australian Bureau of Statistics 2019b).

The health and disability of the elderly

The elderly are Australia's greatest consumers of health and age care services. Whereas Australians aged 70 and over comprised only 10 per cent of the population in 2015, they accounted for 34 per cent of the total burden of

ill health (Australian Institute of Health and Welfare 2019:11). However, the rising costs of health care in Australia are being driven mainly by forces other than the ageing of the population.

The level of disability of the elderly is also greater than that of the population on average. According to Australia's 2018 Survey of Disability, Ageing and Carers, about 12 per cent of people aged 0–64 reported having a disability, far less than the 49.6 per cent people aged 65 and over who reported a disability (Australian Bureau of Statistics 2019a).

Availability of alternative sources of care

The level of demand for publicly subsidised care is further moderated by the availability of alternative sources of care. Older people have their health needs largely met through primary health services (medical, community nursing, allied health) and public hospital acute care. Supplementary private health insurance is also available. The majority of these services are delivered separately from the aged care programs, although nursing support is a particular focus of residential aged care. Further improvement in Australia's primary health system could reduce demand for subsidised aged care. The demand for subsidised aged care services can also be influenced by their availability, quality and private costs.

Informal carers, predominantly family, but also friends and community groups, provide most of the care and support required by older people living at home who are not able to live independently or to buy care services directly from the market. Informal carers provide support for daily food and personal care, communication, mobility, household services and the coordination and facilitation of formal community care services (Productivity Commission 2011).

The expected trajectory of future demand is a primary consideration in assessing the sustainability of Australia's aged care system, as will be addressed in a later section of this chapter.

Supply-side funding and delivery of subsidised aged care within a competitive quasi-market environment

Australia's current suite of aged care services displays many legacy design features that are no longer relevant to current consumer needs or to the government's fiscal circumstances, as set out below. Nonetheless, reform can be strongly opposed by some providers who have vested interests in protecting their past investments and in retaining their ongoing stream of publicly funded 'rents'. Reform can also be opposed by consumers who are resistant to any increase in their financial contribution for their care services, even when they have the capacity to pay.

The following summary explanation of Australia's three major subsidised aged care programs in 2021 provides insights into issues of consumer choice and control, the competition between not-for-profit and for-profit providers and the national government's roles as funder and regulator.

Detailed descriptions of the programs are available on the national government's MyAgedCare website (www.myagedcare.gov.au). Key data for each program were drawn from the Aged Care Financing Authority (2020), with further information available at: www.health.gov.au/committees-and-groups/aged-care-financing-authority-acfa. Subsequent to the authority being wound up on 30 June 2020, the Department of Health and Aged Care undertook to publish similar data for 2020–21 onwards. That year's data was not released until November 2022 (www.health.gov.au/health-topics/aged-care/aged-care-research-and-reporting#financial-performance-of-the-australian-aged-care-sector).

Entry-level support at home

The Commonwealth Home Support Programme (CHSP) provides a basic range of subsidised services to help people live independently in their own homes. Supply of services is capped by an annual level of national government funding allocated to regionally based approved providers. It has the broadest reach of all programs, providing services to 840,984 older Australians nationally in 2018–19. There is no transparency on the level of unmet demand.

Services include meals, transport, home cleaning and maintenance, social outings, personal care, and some nursing and allied health. Providers are block funded by the national government and they ration their services to meet the higher priority needs of eligible older people in their region. Around half of CHSP consumers receive only one type of service and less than 10 per cent receive five or more types of service. The average cost of services provided to a consumer is around AUD3,000 per annum.

In 2018–19, the national government contributed AUD2.5 billion to service delivery in the CHSP and consumers contributed only AUD252 million (10 per cent of total CHSP funding).

There were 1,458 funded providers, most of whom (69 per cent) were not-for-profit organisations. Government agencies (often local councils) made up a further 24 per cent. This profile reflects the legacy involvement of charitable community groups and local governments in supporting their local communities. More than half of all providers (801) are small scale, receiving annual grants of less than AUD0.5 million.

Complex care at home

For older people requiring more complex care while still living in their home, the Home Care Packages program (HCP) provides four levels of subsidised care, with the level of support determined by an assessment of need. Home care services were provided to 133,439 consumers in 2018–19 and the number of funded home care packages is growing steadily. There is a single National Priority System that had a further 99,000 people on the waiting list who had been assessed as eligible for subsidised care (as at September 2020). People on the waiting list are offered interim CHSP or lower-level HCP program care in the interim.

Public funding is made available to consumers who can then choose from a list of approved providers. Consumers and their providers jointly develop a care plan that supports them to remain living at home and can be delivered within their level of approved funding.

The four funding levels range from approximately AUD9,000 per year for Level 1 basic care to AUD52,000 for Level 4 complex high care (2020). Consumers may be asked to pay a basic fee based on 17.5 per cent of the single age pension (about AUD11 per day). They are required to pay an income-tested fee of up to about AUD31 per day. That fee has both annual and lifetime limits on the total contribution by each consumer.

In 2018–19, the national government expenditure on HCP packages was AUD2.5 billion while consumer contributions totalled only around AUD107 million (4 per cent of the total). Many providers forego the basic daily fee as part of their marketing strategy as they compete with other providers to attract consumers.

There were 928 home care providers at 30 June 2019. A majority of the sector is not-for-profit, accounting for 52 per cent of providers and a higher 72 per cent of total consumers. For-profit businesses accounted for 36 per cent of providers and only 12 per cent were government agencies. A net profit/surplus was recorded by 72 per cent of home care package providers in 2019–20.

From 2017 the national government removed the supply-side caps on the number of approved providers, other than requiring compliance with quality, safety, management and prudential standards. Limits remain on consumer eligibility and on the overall supply of funded packages.

Aged care homes

The national government provides a range of means-tested financial assistance for those older people who can no longer manage with living at home and need to move into a residential aged care home (nursing home). At 30 June 2019 there were 213,397 operational places and during 2018–19 residential care was provided to 242,612 older Australians.

Aged care homes provide three broad types of service: health and personal care; daily living support; and accommodation.

Health care is delivered by nursing and allied health workers, with residents also having access to primary medical care and acute hospital care on the same basis as the rest of the community. Personal care in aged care homes is mainly delivered by lesser-trained workers. Care funding is determined through an aged care funding assessment. The national government provides the majority of care funding and the means-tested resident contributions account for only 5 per cent of care costs and have annual and lifetime limits.

Daily living support includes food, cleaning, utility services and transport. All residents pay a basic daily fee (set at 85 per cent of the single age pension), which is not publicly subsidised (while recognising that the majority of residents pay the fee from their taxpayer-funded aged pension).

Accommodation costs are paid for by many residents by either a refundable accommodation deposit (repayable lump-sum) or daily accommodation payment (rent) or a combination of the two. A means test is applied, and the national government provides either a full or partial accommodation subsidy for low-means residents.

Aged care home subsidies account for the majority of public aged care expenditure by the national government in 2018–19. Public funding of AUD13 billion makes up 67 per cent of total revenue received by aged care home providers. Residents contributed 26.7 per cent (AUD5.2 billion), primarily through the basic daily fee and as accommodation rent. Separately, a significant minority of residents paid refundable lump sums which represent temporary loans to providers.

At 30 June 2019 there were 873 providers of aged care homes, continuing the gradual consolidation of providers in recent years. Not-for-profit organisations accounted for 56 per cent of providers and 55 per cent of places, while nearly all of the remainder were for-profit homes (government-run homes were only 4 per cent of the total). Residential care providers have been experiencing declining financial performance over the medium term as expenses grew faster than subsidies. In 2019–20, only 46 per cent of providers reported a net profit/surplus.

The national government has a supply-side cap on the number of operational places, which are allocated to approved providers on a regional basis through regular rounds of requests for proposals.

The overarching challenge facing the aged care system — sustainability

The sustainability of Australia's aged care system is the most significant aged care challenge facing not only the national government, but also providers (not-for-profit organisations, for-profit businesses, government agencies), the workforce, investors and, more fundamentally, aged care consumers.

The sustainability of Australia's aged care system has four significant dimensions.

- Fiscal sustainability—taxpayer affordability of publicly funded services: now and over the longer term

- Financial sustainability—provider operational viability and confidence to invest (at sector level and in thin markets)
- Workforce sustainability—ongoing availability of sufficient labour force with the right knowledge, skills and professional attributes
- Societal sustainability—community confidence in the quality and safety of care for those in need, and in the equity and fairness of the distribution of costs and benefits across consumers, providers and taxpayers.

There are many consequences from the aged care system becoming unsustainable. They include reduced service availability; reduced numbers of providers, which can lead to less competition and consumer choice; reduced provider investment in quality and safety; less equity of access across the elderly population; higher financial demands on consumers and on future generations of taxpayers; and a shrinking and poorly-trained workforce that is under pressure to maintain high-quality consumer-centred care.

Australia's national governments across the political divide have long recognised the significant impact that its ageing population would inevitably have on the fiscal position of the budget and on the performance of the economy overall. In 1998 the parliament passed the *Charter of Budget Honesty Act 1998* (Cth), with one of the requirements being the periodic publication of a set of long-term economic and budgetary projections:

An intergenerational report is to assess the long-term sustainability of current Government policies over the 40 years following the release of the report, including by taking account of the financial implications of demographic change. (*Charter of Budget Honesty Act 1998*: Part 6, Section 21)

The first Intergenerational Report (IGR) was published in 2002 and set an expectation for forward-looking policies that would address emerging, but already knowable, challenges.

Although the ageing of the Australian population is not expected to have a major impact on the Commonwealth's budget for at least another 15 years, forward planning for these developments is important, to ensure that governments will be well placed to meet emerging policy challenges in a timely and effective manner. (Commonwealth of Australia 2002:1)

That first report identified a number of macro-level policy priorities that would contribute to sustainability: government debt needs to be low over the economic cycle so that the pressures of an ageing population can be

accommodated; the health system needs to be efficient and effective; residential aged care (and, increasingly, home-based aged care) needs to be affordable and effective; working-age people need to be encouraged to be employed, including in their later years; and the retirement incomes policy needs to encourage private saving for old age (Commonwealth of Australia 2002).

Since 2002 there have been four further IGRs. While the central themes have remained relatively constant, each has in some way reflected the policy agendas of the government in power at that time. A particular example of differentiation was the overtly political 2016 IGR produced by a conservative government.

The effectiveness of IGRs can be judged against several parameters, one of the simpler being the accuracy of their projections. The most recent 2021 IGR has included several analyses which track the changing projections for some key economic indicators against actual outcomes. Unsurprisingly, the projections have had material margins of error, but their rationales at the time were seen to be reasonably sound.

An alternative criterion could be whether the IGRs have made a relevant contribution to public policy in Australia. At a high level, and by examining the 2002 IGR policy prescriptions some two decades later, there is ample evidence that large parts of the health system are still neither efficient nor effective. Residential aged care is affordable for most residents but decreasingly so for taxpayers, and it is not effective nor is it viable for most providers. Retirement incomes policy still has shortcomings, such as the significant tax advantages it offers for high income earners who have large balances in their superannuation accounts.

There is little research on whether the IGRs have promoted greater community understanding of the medium- and longer-term challenges facing Australia, although an analysis by the Australian Parliamentary Library cites examples of where governments have drawn on specific parts of IGR reports to add to their public justification for policy initiatives (Swoboda 2022).

A 2021 Intergenerational Report Policy Roundtable of invited experts, conducted by the Academy of the Social Sciences in Australia, debated the role and merits of the report and will publish roundtable papers in a forthcoming publication.

The consequences of greater longevity

Australia's high life expectancy and low fertility rates will continue to have significant social, economic and fiscal impacts into the future. Australia had the sixth highest life expectancy for persons at birth in 2018. In the last decade alone, in Australia, life expectancy for males increased by 1.6 years and females by 1.1 years (United Nations, reported in Australian Bureau of Statistics 2021a).

Population projections for the Australian population in 2066, relative to the base year of 2017, show ongoing growth in the proportion of older people over the next few decades (Australian Bureau of Statistics 2021b). People aged 85 years and over are projected to increase from 2 per cent of the population in 2017 to between 3.6 per cent and 4.4 per cent, but the proportion of people of working age (15–64 years) is projected to decrease from 66 per cent in 2017 to between 61 per cent and 62 per cent in 2066, thereby worsening Australia's dependency ratio, workforce availability and capacity to raise public revenue from income tax.

This evidence, however, is not a sufficient basis for concluding that, as life expectancies increase, the demand for publicly funded age care services necessarily increases proportionately for those additional lived years. There is an ongoing debate in the health literature between the theory of the expansion of morbidity, which draws on evidence that modern medicine and health care are able to maintain people's lives for longer while still having significant illness and ongoing care, and an opposing theory that there is a compression of morbidity, where the increase in life expectancy is accompanied by more years of greater health (Australian Institute of Health and Welfare 2020). The latter theory, and its supporting evidence (Swartz 2008), has become widely recognised as the dominant paradigm for healthy ageing.

A third theory (dynamic equilibrium) proposes that the proportion of a person's lifetime spent in ill health remains relatively constant, even as life expectancy increases. A study of adult life expectancy and disability in New Zealand (Graham et al. 2004) found support for this theory. A study in Australia using data up to 2015 concluded that 'At a national level, what is evident from these analyses is that, for people aged 65, with continuing increases in life expectancy, the proportion of their lifetime spent in ill health has remained constant' (Australian Institute of Health and Welfare 2020:259).

At a more disaggregated level of analysis, however, the Australian study found that for people living in the lowest socio-economic areas within cities and in regional areas, the increase in longevity was accompanied by an expansion of morbidity as a greater proportion of later life was spent in ill health. Similarly, there is strong evidence that Australia's First Nations people, people living in rural and remote areas, and people with a disability or poor mental health are all more likely to have lower health outcomes and higher healthcare needs (Australian Institute of Health and Welfare 2020). These findings point to a greater future demand for aged care subsidies amongst certain cohorts of the population.

Fiscal outlook

In Australia, two decades on from its initial IGR, the 2021 Report (Commonwealth of Australia 2021c) projected that health spending by the national government is to increase from 4.6 per cent of GDP in 2021–22 to 6.2 per cent in 2060–61. There are two points worthy of note.

The first is that a figure of 4.2 per cent of GDP for expenditure on health looks low (and is) because public expenditure on health care in Australia is a shared responsibility between the national government (predominantly in funding primary care, subsidies for pharmaceuticals, rebates for private health insurance and a contribution to public hospitals) and the states and territories (for public hospitals and community health). Overall expenditure on health care represents around 10 per cent of GDP, with funding sourced from the national government (42 per cent), states and territories (27 per cent) and private contributions (32 per cent, including for out-of-pocket fees and private insurance) (Commonwealth of Australia 2021c).

The second point is that the rising costs of health care are not primarily driven by demographic ageing but by rising incomes, changes in consumer preferences and the costs of using new health technology.

In contrast, the increased public expenditure on aged care is predominantly driven by demography, at least for the next decade or more, as the number of baby-boomers (reaching age 85 and older) increases substantially. Additional non-demographic drivers include the costs of improving quality and safety standards, competition for skilled staff, the need to respond to the changing incidence of frailty and disease among the elderly and recognition of changing consumer preferences. Aged care subsidies are almost entirely the responsibility of the national government and the 2021 IGR projects

that the budgetary cost of the subsidies will almost double as a percentage of GDP over the next 40 years, from 1.2 per cent of GDP in 2021–22 to 2.1 per cent in 2060–61.

There are also other factors that constrain the ability of the national government to increase its funding of aged care subsidies in future years. The 2021 IGR identifies the significant fiscal impact of Australia's increasing public expenditure on caring for those with disabilities, with a commensurate increase in the caring workforce. National, state and territory governments' interest payments are also projected to increase as a proportion of total spending over time, in large part as a result of the debt incurred in responding to the COVID-19 pandemic.

Workforce and financial viability outlooks

As noted earlier, the increasing proportion of the Australian population aged 85 years and older and the declining proportion of people of working age 15–64 years will negatively impact Australia's dependency ratio, add pressure to workforce availability and reduce the capacity to raise public revenue from income tax (Australian Bureau of Statistics 2021b).

In relation to workforce availability the royal commission, among other reports, recognised that aged care staff were poorly paid and worked in difficult conditions, including coping with the pressure of minimum staff numbers on rosters. This applied especially to the lowest paid personal care workers but also extended to the professional levels of nursing and managerial staff. The aged care sector was also in direct competition with providers of health services, disability care and childcare to attract and retain staff. The closed international borders resulting from the COVID-19 pandemic has recently further exacerbated Australia's economy-wide labour shortage.

The financial viability of aged care providers is also a fundamental requirement for sector sustainability. Without viable providers, aged care consumers will not have access to services. The 2020 September quarter results from an aged care financial performance survey highlighted that the underlying financial performance of the residential aged care sector continued to deteriorate in all regions across the nation. Over half (52 per cent) of aged care homes recorded an operating loss for that quarter and average occupancy levels decreased to 91.5 per cent. The survey authors concluded that: 'unless additional specific targeted funding and structural

reform is implemented it may lead to closure of residential aged care homes and will risk further necessary investment into the sector' (StewartBrown 2021:10).

For residential aged care, workforce costs account for around 70 per cent of providers' expenses. In recent years the continued growth in these costs has been putting pressure on the financial performance of providers and adding to the government's fiscal burden through the rising cost of subsidies (Catholic Health Australia 2019). However, to compete in the market for staff, aged care providers will need to significantly improve wages and conditions. Further, given the already high rates of operational losses being experienced, there is little scope to absorb these costs and the level of government subsidies and consumer contributions will need to increase further.

In addition to these system-wide pressures, the Aged Care Financing Authority found that there are specific additional circumstances facing organisations which provide services in rural and remote areas and to other special needs groups. Most of these providers lack economies of scale, incur high operating costs and are constrained by the limited availability and higher costs of a skilled workforce. On the other hand, they also often lack competition and have reduced incentives to be innovative. Consumers in these areas and special needs groups are fewer in number, may have less purchasing power, have a limited choice of provider and incur high costs and extended times in travelling to service centres (Aged Care Financing Authority 2016). The national government has adopted several strategies to address these issues, including additional viability payments and workforce initiatives.

The extent of the future availability of informal carers is also uncertain. Any reduction in the provision of informal care from family and friends can increase the demand for paid care and require further government expenditure on public subsidies. A range of factors is at play. Australia's declining family size has reduced the pool of non-partner relatives potentially able to provide informal care. In addition, female labour force participation is increasing, as is mature age participation more generally. Somewhat counterintuitively, the increase in publicly funded home-based formal care has also increased the reliance on informal carers to coordinate and manage the delivery of care into older persons' homes (Deloitte Access Economics 2020).

The royal commission's *Final Report* proposed a great many initiatives and explained:

we have not attempted a comprehensive costing of the full suite of recommendations. However, the extent of the reforms and size of their financial impact is so significant that they will stand beside Medicare and the National Disability Insurance Scheme as landmark Australian social policy reforms. (Royal Commission into Aged Care Quality and Safety 2021:Vol. 1, p. 57)

The only significant source of revenue for subsidised aged care, apart from taxes, is from the consumers of those services and their families. Despite the need to increase the quality and safety of care, and for the sector to compete for its workforce by offering higher wages and conditions, the royal commission recommended the abolition of consumer contributions toward the cost of their care. In contrast, the aforementioned Legislated Review of Aged Care recommended that, in home care for example, providers should be required to charge the basic care fee as well as the income-tested care fee (Commonwealth of Australia 2017:78, Recommendation 12).

The issue of consumer contributions is explored next.

Increasing the level of consumer contributions

An analysis of aged care revenue received by service providers in 2017–18 found that the national government paid AUD16.6 billion, or 77 per cent of the total cost of AUD21.4 billion. In contrast, aged care consumers paid less than 10 per cent of the cost of home support and home care. They paid a similarly low proportion of the cost of the health and personal care they received in residential aged care homes but are required to pay a basic daily fee (for food, cleaning, electricity and similar costs of daily living) and many residents who had higher means also paid part or all of their accommodation (Woods 2020).

These low levels of consumer contributions contrast with the large store of wealth that many older people have—predominantly in the value of their home but also in their superannuation capital balances. A review into Australia's retirement income system has revealed that many retirees saw their 'retirement income' as being the investment returns from their

superannuation balances but not the stream of funding that could be attained from also drawing down the capital value of those balances to help fund their living standards in older age (Commonwealth of Australia 2020).

Similarly, there is a strong reluctance by many older people to draw on the wealth of their home to improve their quality of life in their retirement years and to increase their contributions for aged care services. The retirement income review concluded that 'most retirees leave the bulk of the wealth they had at retirement as a bequest (Commonwealth of Australia 2020:18).

A major expressed concern by older people (and often their children) is having to sell their home during their lifetime to contribute to the cost of their aged care. On this issue, the Productivity Commission recommended the establishment of a government-backed home credit (reverse mortgage) scheme to assist older Australians contribute to the costs of their aged care and support (Productivity Commission 2011:Vol. 2, p. 5).

Although the national government did not accept that recommendation, it has subsequently expanded the scope of its Pension Loans Scheme. That scheme was described in the retirement income review as being an effective option for accessing equity in the home for both age pensioners and self-funded retirees (Commonwealth of Australia 2020:19).

Many consumer advocacy groups and other civil society bodies have recognised that consumers of publicly funded aged care services should contribute to the services they use according to their capacity to pay. In a submission to the royal commission, the Council on the Ageing acknowledged that current levels of taxpayer support are likely to be unsustainable into the future and that: 'an equitable assessment of capacity to pay should have regard to total wealth regardless of the form in which it is held (real property, cash, equities, superannuation, etc)' (Council on the Ageing, Australia 2020:30).

Catholic Health Australia, in a pre-budget submission in 2019 to the treasurer of the national government, similarly identified the financial pressures facing residential aged care services in an environment of declining revenues, increasing costs and rising community expectations as being a significant issue. Being mindful of the government's overall budgetary pressures, Catholic Health Australia advised that it would publicly support improving the fairness of consumer contributions based on capacity to pay: 'including the full value of the consumer's former home in the means test for residential care when there is no protected person in that home' (Catholic Health Australia 2019:3).

These views are opposed by some older people and organisations such as the Combined Pensioners and Superannuants Association 2019: ‘CPSA opposed the Productivity Commission’s proposal on the grounds that it would reduce the housing security of older Australians’ (Combined Pensioners and Superannuants Association 2019).

The national government’s response to the royal commission’s proposal to abolish aged care consumer contributions was to note that: ‘This recommendation is subject to further consideration’ (Commonwealth of Australia 2021a:82). In parallel, however, the government proceeded with reforms to its funding of aged care by strengthening the incentives for providers to collect the full value of consumer contributions (Commonwealth of Australia 2022).

In addition to the need to improve the fiscal sustainability of aged care, there are other benefits from requiring higher wealth consumers to pay contributions. The Aged Care Sector Committee 2016 Report noted, for instance, that there is a link between the higher payment of private contributions and the related benefit of greater consumer choice and control.

A fiscally sustainable aged care system that requires consumers to contribute to their care costs where they can afford to do so means that there will be increased consumer expectations for greater choice and control. The ability for consumers to choose who provides care and support will create a more competitive and innovative market. (Aged Care Sector Committee 2016:2)

Through the direct self-interest arising from contributing to the funding task, consumers can demand, and help drive, providers to deliver services that better reflect their needs and preferences.

Enhancing consumer choice and control through the reach of market forces — uncapping the supply of residential aged care

As described in the Productivity Commission’s 2011 report, Australia’s aged care arrangements at that time were characterised by high levels of government regulation which encompassed all facets of the system: the quantity, scope, location, quality, safety and funding of subsidised places; the selection and monitoring of the providers; and the standards of the workforce.

The regulation went beyond that required to protect vulnerable consumers and ensure quality and safety. The capping of supply through the licensing of individual providers aimed to protect the national government's budgetary exposure, but the contemporaneous regulation of consumer eligibility served a similar purpose. Licence allocations also aimed to achieve greater regional distribution of care services but failed to address the fundamental issues facing service delivery in rural and remote areas. One of the downside consequences was that the selected providers had a privileged position within the system and were sheltered from competition from other providers.

Despite some deregulation following the introduction of reforms by national governments in the years from 2012, the 2017 Legislated Review noted:

Several important recommendations from the [Productivity] Commission were not implemented but remain at the centre of aged care policy discussion, particularly the issue of 'uncapping supply': the removal of regulatory restrictions on the number of aged care places and packages made available to the community. (Commonwealth of Australia 2017:6)

In line with the recommendations of the Productivity Commission in 2011, the national government's subsequent 2017 reform of the home care program changed the assignment of care package funding from providers to eligible consumers when they reached the top of a new national priority list. However, the government retained fiscal control by capping the number and value of available packages rather than making care available to all who met the eligibility criteria. Consumers who had been allocated a package of care were able to approach any approved provider to contract for the supply of services on a consumer-directed care basis (Commonwealth of Australia 2021b). The Legislated Review noted that these reforms, which transferred funding from providers to consumers, had led to an increase in consumer control.

Providers reacted in different ways to the opening of the market to new providers. Some existing providers argued that their business model and workloads were under challenge from the greater competition. Most, however, responded positively to the opportunities provided by the reforms: 59 per cent were considering offering packages in new locations and 81 per cent anticipated increasing their customer market share (Healthdirect Australia 2018).

Although these reforms took place in 2017 for home care packages, the allocation of new approved places for residential care have continued to be both capped and allocated to providers (at no cost) in specified areas across the nation through government-run competitive Aged Care Allocations Rounds (ACAR). The 2017 Legislated Review recommended that the government discontinue ACAR, instead assigning places directly to the consumers within the residential care cap (Commonwealth of Australia 2017:13). A study into the impact of such a proposal was subsequently commissioned by the national government.

The Impact Study developed a set of principles against which to evaluate several reform options: ‘These principles are consistent with the foundations of aged care reform already in place, which are that aged care services should be consumer driven, market based, equitably and sustainably subsidised and proportionately regulated’ (Woods and Corderoy 2020:xi).

The five principles they adopted were:

1. provide greater consumer choice and control in a competitive residential aged care market
2. drive outcomes for quality and safety in residential aged care that meet or exceed approved standards
3. facilitate timely and equitable access to residential aged care and respite services for those in need
4. facilitate a residential aged care sector that has continued growth and financial investment which responds to increasing consumer demand and changing preferences
5. have transparent and accountable processes.

The study found there were several adverse consequences arising from the existing program design, including that it was not providing a consumer-driven market which could offer real choice for consumers. The supply-side capping of places and their allocation to specific providers resulted in less-preferred homes enjoying higher occupancy than they would in a more open market. Providers had ‘little incentive to compete, to excel in the quality of their care, or to innovate in their services and accommodation’. Providers also had ‘little ability to respond to consumer demand and changing preferences ... [and had] limited flexibility to increase the scale, location and diversity of their market offerings’ (Woods and Corderoy 2020:xii). New entrants gained proportionately fewer places under the government allocation rounds.

The study recommended assigning residential care funding directly to consumers, while opening up the provider market to new entrants who were able to meet the required standards. It also recommended abolishing any remaining supply-side caps, relying instead on improved assessment processes using clearer eligibility criteria (Woods and Corderoy 2020).

The study noted that the circumstances facing both consumers and providers in rural and remote areas, and some special needs groups, did not lend themselves to the development of competitive market environments. It further noted that almost all providers in these areas were not-for-profit or government (including in joint health and aged care multipurpose services) and that there was a lack of sustainable return, despite some additional national government support. The presence of the providers in these areas reflected either their mission-based approach to service delivery (not-for-profit organisations) or their requirement to be provider of last resort (generally government agencies).

The study concluded, however, that the current program design did not provide a solution

While locational targeting may lead to a greater allocation of places in targeted areas, it does not guarantee that provision will eventuate. The ACAR's capacity to achieve this goal is limited by its reliance on providers being willing to follow through with investing in those locations and being confident of remaining viable over the longer term (including at times through internal organisational subsidisation). (Woods and Corderoy 2020:80)

Instead, the study considered that removal of the allocation and locational constraints on providers would increase operational flexibility for those organisations committed to delivering to these rural and remote areas and to special needs groups. The overriding concerns of the providers were the availability of adequate funding and skilled workforces.

Critics of the proposed reforms to abolish ACAR argued that there would be disruption in the delivery of care, investment uncertainty and reduced occupancy of aged care homes. The Royal Commission on Aged Care Quality and Safety did not make any recommendations on the proposals put forward in the Impact Study. Overall, the royal commission gave little recognition of the role that markets can play in incentivising competition between providers to the benefit of informed consumers exercising both choice and control.

The national government, in its response to the royal commission's *Final Report*, supported the proposals of the Impact Study by announcing that the elderly would be given more control and flexibility when selecting a residential aged care provider of their choice. ACAR would be discontinued, and packages would be allocated directly to consumers from July 2024 (Commonwealth of Australia 2021a). As such, providers would be required to compete for residents, just as they have been doing for consumers with home care packages since 2017.

The challenges facing the ongoing reform of aged care policy

The challenges involved in managing and overcoming the future risks to sustainability of subsidised aged care services are profound. The policy prescriptions are not easy for governments to adopt, and the aged care sector is showing reform fatigue. This has been compounded by the additional layers of expense and government direction being driven by the COVID-19 pandemic.

The range of potential policies which could improve aged care sustainability include: reducing demand by strengthening the primary healthcare sector and improving the wellbeing of the elderly; assessing the effectiveness of the current range of publicly funded services to ensure that they are providing both private and public benefits; reviewing the criteria by which older people become eligible for the public subsidies; and strengthening the eligibility assessment processes to improve their equity, accuracy and consistency.

The strengthening of competitive market conditions for the supply of services in major urban areas would create strong incentives for increased provider efficiency, innovation and responsiveness to consumer demand. In turn, the increase in service efficiency would reduce costs and improve resource allocation, as would a more flexible labour market. However, the workforce would need to be paid a competitive wage, be well trained, have supportive career pathways and work in consultative and collaborative workplaces.

On the funding side of the sustainability equation, consumers who have greater income and/or wealth would need to make a greater financial contribution that recognises the considerable private benefit of the services, while preserving community-wide equity by providing targeted safety nets to those in financial need.

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Concluding comments: Common challenges amidst sharpening differences

Andrew Podger

Abstract

These concluding comments represent a personal reflection from someone closely involved with the Greater China Australia Dialogue on Public Administration from the beginning.

This volume of papers arising from the Dialogue's 10th workshop explores more recent developments in public administration in the PRC, Taiwan and Australia and prospects for the future. The chapters demonstrate how the fundamental differences, particularly in institutional arrangements and values, impact various aspects of public administration practice, but also reveal that there remain common challenges and scope for shared learning.

A summary of both differences and common challenges and shared lessons is followed by a brief discussion of possible shared principles across the three jurisdictions and an assessment of the strengths and weaknesses of contemporary administrative practice against those principles that are common across the three jurisdictions.

Such shared principles fall well short of Western democratic principles, which are gaining renewed appreciation in Australia and Taiwan and other Western countries. There is some correlation between democratic principles

and economic liberalism and growth, leaving open the possibility of some future reconsideration in the PRC of the balance between state control and economic liberalism.

In the meantime, the sharpening differences present a challenge for academics wanting to engage with peers. Engagement is critical and, as demonstrated by this volume, it can be pursued judiciously without requiring individuals to compromise the values they hold dear.

Keywords: differences in public administration practice; common challenges; shared principles of public administration; rising tensions; engagement.

Introduction

As discussed in the opening chapter, this volume of papers exploring recent developments in public administration in the People's Republic of China (including Mainland China and Hong Kong), Taiwan and Australia is in the context of sharpening differences and contested global developments. Inevitably, any comparative study of public administration across these three jurisdictions today must highlight the fundamental differences, particularly in institutional arrangements, but also in cultures and social and economic priorities. These differences were acknowledged at the first workshop of the Greater China Australia Dialogue on Public Administration held in 2011, but far more attention was given then to the common challenges and scope for shared learning across the jurisdictions (Podger and Bo 2013).

Even now, while the chapters in this book demonstrate how the differences impact on various aspects of public administration practice, they also suggest there remain many common challenges and the continuing potential not only to learn *about* how each jurisdiction is addressing those challenges but also to still learn *from* each other. The chapters reveal there is much borrowing of ideas, especially by the Chinese jurisdictions from Western nations (e.g. performance management and budgeting, participatory budgeting, civil service professionalism, social security systems, social service delivery through partnerships) but far less borrowing to date of emergent ideas from Mainland China by Australia, Taiwan and other Western nations.

Each jurisdiction, however, is determined to pursue its own values and not to be pressured to accept those of others. In the two Chinese jurisdictions in particular, this nonetheless has involved significant recalibration of

their values over time. In the PRC, shifts have occurred from the Mao era through the Deng and post-Deng ‘opening-up’ eras, and now under Xi. The values of Xi’s Chinese Communist Party (CCP) are not just communistic and nationalistic but embrace a return to a firmer anti-liberal approach and a mercantilist economic framework (though, as indicated in Chapter 1, the overall story is complicated). Also, perhaps for the first time ever (since the fifteenth century!), Xi’s China is pursuing a deliberate internationalist agenda. Taiwan today is more Western-oriented, moving to adopt more liberalist open government, after decades of dictatorial rule prior to the 1990s. It prizes liberal modernisation and personal freedoms over statist conformity. Australian values have also evolved, particularly if considered over the long period since World War II: from reflecting an enclave of British settlers to the values of a more multicultural society perhaps more confident of its Indo-Pacific geography and looking to reconciliation with its Indigenous peoples, but still firmly among the liberal democracies.

The differences between the three jurisdictions are also affected by their vastly different domestic media landscapes. In the PRC, while access to international media and information is far greater than in the Mao era, the domestic media is tightly controlled by the party-state and significant resources are devoted to monitoring and controlling communications. Taiwan exerts much less political control but its domestic media is fairly nationalistic. Australia has a relatively free domestic media and no limits on access to international media, though its cultural reach is largely limited to the Anglosphere; ownership of its media is also narrow and self-regulation weak so that more effort is devoted to scandals and sensationalism rather than serious discussion of governance and public policy. These differences have consequences for what can be done and can’t be done by governments.

Differences in public administration practice

In each of the four thematic areas studied in this volume, important differences in public administration practice are apparent.

In the area of intergovernmental relations, Australia’s federal framework allows the states a degree of sovereignty (perhaps better described as semi-sovereignty or quasi-sovereignty given the national government’s dominant revenue powers); the states in turn have continued to limit the role of local

government. The PRC by contrast has a largely decentralised unitary system and has recently strengthened the central government's authority; its five-level government framework, reflecting the country's huge population as well as its geographic size, places much more emphasis on provincial and local governments. It also has sophisticated bargaining arrangements with tier one provinces and cities and is putting considerable effort into upgrading poorer provinces. Taiwan also has a unitary system but is attempting to strengthen the capacity of the big city governments in particular (especially in Taoyuan, Kaohsiung and Taichung) and to improve the performance of regional and local government bodies.

On budgeting and financial management, the CCP continues to operate an opaque policymaking process within a broadly socialist framework though it has also been giving emphasis to public finance reporting including performance reporting and audit assessments and has been experimenting with performance budgeting. Taiwan's and Australia's more liberal economic approach involves much greater transparency, including through integrating public policies and resource allocation and linking these at least in part to performance reporting and management.

Regarding the civil service, the PRC totally blurs politics and administration: indeed, under Xi, not only is there no political appetite to separate the spheres, but party control is increasing in intensity and surveillance. Australia and Taiwan continue to prefer a greater degree of separation between politics and administration with a professional, neutral, competent civil service (though political responsiveness is still an important imperative). However, both have relatively few public agencies truly independent of politics (as compared to many European democracies).

Regarding service delivery, the PRC is continuing to place considerable emphasis on economic development, mega-infrastructure projects and transport provision and 'approved' communication systems, and its incremental approach to anti-poverty and wellbeing improvements in social services involves firm government control. While also investing in infrastructure, Australia and Taiwan are focusing more on social services where they also place more emphasis on individual and constituency group rights and increasingly to the role of civil society in customised service delivery.

Common challenges identified and shared lessons

In each of the four areas studied, the chapters also identify many common challenges despite the differences in public administration practices; in some cases, lessons may be learned for possible future adoption with suitable adaptation across jurisdictional boundaries.

In the area of intergovernmental relations, it is the PRC which has demonstrated the capacity to use these to systematically experiment with new policies and management practices, rather than Australia, despite Australia's federal framework. A common trend across all jurisdictions is towards *shared responsibilities* across levels of government, which imposes challenges for coordination and accountability. At the same time, all three jurisdictions are grappling with the challenge of clarifying respective roles and responsibilities and associated financial arrangements. Another common challenge for higher-level governments is to ensure service delivery is responsive to local needs and preferences while ensuring universal access and common standards. For example, both the PRC and Taiwan are now legislating minimum standards and setting improvement targets, and requiring more consistency in the quality of delivery.

On budgeting and financial management, all three jurisdictions face major challenges following the COVID-19 pandemic and the emergency health, economic and budgetary responses to it. Budget repair will prove very difficult but is critical given the enormous increase in public debt arising from the pandemic response. Linking budgeting and financial management to performance remains an articulated common priority despite the record of indifferent efforts in attaining this goal over many years (and despite some potent political obstacles). There is also common interest in improving transparency (even if in the PRC this seems to focus only on after-the-event reporting) and in public accountability (in the PRC's case partly to support the legitimacy of the CCP regime by building public confidence and satisfaction).

Regarding the civil service, there is common interest in enhancing its technical capability and managerial performance. All jurisdictions still display an overt old-fashioned bureaucratic character, despite the emergence of changing societal norms and citizen expectations, and the prevalence of disruptive technologies. Applying merit remains a common challenge,

with the concept of ‘merit’ being interpreted somewhat differently in each jurisdiction (Podger and Chan 2015). Across these different concepts of merit are the challenges of ensuring political ‘fit’ and ‘can-do-ism’ as well as technocratic competencies. An associated challenge across the jurisdictions is balancing fairness in administration (ensuring universal access and impartial management) and responsiveness to the political executive.

Among the common challenges in service delivery is the optimal use of new digitalised technologies, which can be used to enhance efficiency and responsiveness to individual citizens and different communities without undue infringement of human rights. All three jurisdictions are also making more use of various types of partnerships with non-government organisations to deliver public services, raising challenges for regulation and oversight. Another challenge concerns how best to address rising pressures for enhanced services, including in health, aged care and disability support, balancing taxpayer-funded support and personal financial contributions (and government and family responsibilities).

Possible shared principles of public administration

These common challenges and potential sharing of lessons suggest there may be some shared principles of good public administration across these jurisdictions, notwithstanding ideological and institutional differences. The following can be inferred from the chapters in this book:

- Concern for the longer-term notion of the public interest, despite much short-termism in decision-making;
- The importance of a robust culture of public service, including responsiveness to citizens and communities (particularly for essential services and basic entitlements and accessibility);
- Efforts to improve transparency and accountability (at least for deliverable outputs and access regimes);
- Professional, competent and effective administration; and
- Fairness in administrative procedures and treatment of clients, and equity of access to essential services.

Some of the chapters suggest going further to encompass such ideas as citizens' engagement and participation, protection of human rights and the existence of checks and balances, but at present these would not be endorsed sufficiently across all three jurisdictions to be included in a list of shared principles.

Common strengths and weaknesses

As evidenced throughout the contributions in this book, there has been a range of improvements in public services in all three jurisdictions over the last decade. In the PRC, enormous steps have been taken to develop a comprehensive social security system and health insurance and services for the aged, to expand and strengthen the education system and to address environmental problems; plus, of course, the extraordinary development of infrastructure. Taiwan and Australia have also seen ongoing, if more modest, improvements: in medical care, preschool education, public housing, transportation and infrastructure in Taiwan; and in health, disability services, childcare and retirement incomes in Australia, as well as infrastructure such as the NBN (national broadband network).

The picture for public sector management is more mixed and there have been some common developments of concern, breaching the possible shared principles mentioned above:

- Increased 'politicisation', aimed at closer political executive control of public services seems likely to have been at the expense of fair administration and responsiveness to citizens;
- This may also have adversely affected the capability of professional, competent and effective administration;
- The associated diminution of open deliberation and respect for evidence and professional analysis may have contributed to a tendency towards short-term management rather than longer-term strategic planning in the public interest.

An ongoing question for all jurisdictions is whether their governments will follow through with their commitments to address these and related concerns, especially as the ruling composition of governments will inevitably change over time, even in China.

Renewed appreciation in the West of democratic principles

Rising international tensions have led to some renewed appreciation in Australia and Taiwan (and other Western countries) of the benefits of democratic principles, going beyond the possible shared principles identified above. These are not just about regular elections and changes in government but encompass also the rule of law and separation of powers, impartial and inclusive administration, freedom of speech and assembly and associated human rights; supporting these principles are an environment of a well-educated and informed population and a free and responsible press (Podger 2022).

The relationship between such principles and economic liberalism and growth remains somewhat unclear. While there may have been some naïveté in the West that the PRC's 'opening-up' reforms including the use of markets both domestically and internationally would lead eventually to democratic political reform, the market liberalisation of the 1980s and 1990s did deliver more personal freedoms and greater government transparency as well as improved living standards for most of the population. Equally, there is growing evidence that the PRC's more recent increase in authoritarianism with a winding back of some economic reforms is adversely affecting future economic growth and living standards more generally, not just human rights (Rajah and Leng 2022).

This leaves open the possibility of some future reconsideration in the PRC of the balance between state control and the economic liberalism needed to pursue its objective of becoming a 'moderately wealthy' nation. A return to a more liberal economic approach, if reciprocated in the West (countering recent protectionist pressures), might also ease tensions as it would tend to lead to shared economic benefits even if it did not directly protect human rights.

In the meantime, there is some recognition in the West of the need to repair damage done over the last decade or so to the application of democratic principles among Western nations themselves, particularly as the West criticises the policies and actions of authoritarian political regimes (Podger 2022).

Implications for engagement

The deep concerns in the West about the PRC's increased authoritarianism and disregard for liberal-based human rights and the international rule of law present a particular challenge for academics wanting to engage with peers in the PRC and other increasingly authoritarian regimes. At the same time, engagement in the other direction is also made more difficult by concern in China of Western disregard of its legitimate standing and success under its governance system.

Engagement is vital, keeping lines of communication open, ensuring understanding of how different jurisdictions operate and make decisions, and also providing valuable support to peers who may be facing pressures that are limiting their academic freedom. Engagement requires an open mind to different cultures and traditions, and to institutional arrangements that differ greatly from those in the West. But care is needed to ensure engagement does not serve to condone or legitimise constraints on academic freedom or human rights.

This book tries to steer an appropriate balance, engaging with scholars and practitioners across the very different jurisdictions, respecting those differences, helping readers to understand contemporary public administration in the three jurisdictions and promoting continued dialogue. It allows contributors from each jurisdiction to express their own views based on empirical assessments when describing and analysing recent developments. In recognising growing international tensions, it does not try to force a shared view; equally, here in this concluding chapter, I have tried to add my own personal perspective.

Comparative research is complicated and fraught with terminological differences, but it has the benefit that researchers can identify similarities and differences, perhaps have more confidence in making generalities about systems and identifying the significance of case differences, thereby looking anew at their own jurisdiction's practice.

Engagement is important and, as demonstrated by this book, it can be pursued without requiring individuals to compromise the values they hold dear.

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