

Canberra's role needs rethinking

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Ray Evans

Collins Street in Melbourne was where the mining money was in the late 19th century.

Melbourne and Sydney have been rivals since the Victorian gold rushes transformed Melbourne from the very small colonial capital of 1850 into the bustling, rich, rapidly growing city of the 1870s and 1880s. The competition, even acrimony, since then, between the two cities has been a constant factor in Australian politics.

Melbourne was founded in 1835 by John Batman and John Pascoe Fawkner, successful pastoralists from Launceston, who were seeking a harbour with potable water on the Victorian south coast so that they could increase their sheep flocks by shipping stock across Bass Strait.

Melbourne became world famous after the discoveries of gold at Bendigo and Ballarat, and the population of Victoria increased from 97,500 in 1850 to 541,800 in 1860 with sustained immigration thereafter.

Because of gold, Melbourne became the richest city in the world for a brief period in the 1870s-80s, but, as so often happens with the “Dutch disease”, blew it all in uncontrolled government spending and borrowing. The inevitable result was the crash of 1893.

Melbourne was the home of protectionism ever since the newspaper owner David Syme and his protégé Alfred Deakin dominated the political life of that city from the 1880s to 1910. Syme was a rabid protectionist, having been influenced by the great apostle of protectionism, the German born Friedrich List, who went to America in 1825 and wrote an influential pamphlet in 1827, *Outlines of a New System of Political Economy*, which argued persuasively for protection.

Syme took part in the American gold rushes of the late 1840s and then sailed from San Francisco to Melbourne in 1852 and enjoyed some success as a goldminer. His brother, Ebenezer, had founded *The Melbourne Age* and David, after his brother's death, found himself responsible for the paper and the family fortunes. Syme was a very successful propagandist, and he turned the paper into a political weapon of great influence. He could make and unmake premiers – which he often did – but, above all, he turned Melbourne into a protectionist citadel which prospered while the gold industry was able to carry the cost of protection, but went into rapid decline when the gold ran out.

In contrast to Melbourne, Sydney had been the home of free trade. George Reid, later prime minister, was a convinced and persuasive free-trade advocate and, when the first federal parliament assembled in Melbourne in 1901, there were three teams contesting in the parliamentary arena. They were the infant Labor Party, George Reid's free-trade party and Alfred Deakin's protectionist party.

Deakin was the dominant politician of his day and he used Billy Hughes and the infant ALP to undermine Sydney's cohesion. The Deakin Settlement/White Australia, protectionism, imperial defence, state paternalism, wage arbitration together with legal privilege for trade unions became the foundation stones of Australian politics for the next 70 years. Australia became a closed economy and, from 1901, went from first place globally in per capita incomes to about 28th in 1983 when the Hawke-Keating government began the process of winding back protectionism.

Despite relative economic decline, Australia's population increased from 3.8 million in 1901 to an estimated 21.6 million in 2015. The immigration program driven by Labor immigration minister Arthur Calwell in the immediate postwar years had a significant impact not only on population growth but also in the injection of human capital into the Australian economy.

Most of these migrants ended up in Sydney or Melbourne because these cities did what cities have always done – provided jobs. The larger the city, the greater the opportunity for increasing the specialisation which is the driver of growth and jobs.

Cities are where economies grow

Economists since Adam Smith have focused on national economic statistics and on policy prescriptions to increase national prosperity. Smith's great contribution was to show that the mercantilist doctrines of his day (building up gold reserves by exporting more and importing less) led to impoverishment, and his great book, *The Wealth of Nations*, became the textbook for the political leaders of 19th century Britain.

But the focus on national policies and national aggregates ignored the central fact of economic life, which is that it is in the cities where economies grow and innovations are born, and that the nation is, in economic terms, an artificial aggregate of a number of cities in differing states of growth or decline.

The writer who has opened our eyes to this fact is Jane Jacobs, described by William Buckley jnr as one of the truly original thinkers of the 20th century.

Jacobs (1916 -2006) was born in Scranton, Pennsylvania; she moved to Greenwich Village in New York in 1935, and then to Toronto in 1968. She wrote three important books, *The Death and Life of Great American Cities*; *Cities and the Wealth of Nations* and *The Economy of Cities*.

It was when she lived in Greenwich Village that she became aware of the pernicious doctrines of city planning and urban renewal (urban socialism) which threatened the vitality of that great city, and she became famous for her attack on Robert Moses, the doyen of American town planning at that time.

Jacobs has shown us that it is the city, not the nation or the state, which provides the foundations and the structures essential for economic life. She has taught us that we should look at the world as a matrix of cities, rather than as a polity of nation-states (formed by the Treaty of Westphalia in 1645). If we follow in her path we become both wiser and much better informed.

Her theme was defined many centuries ago by the Greek poet Alcaeus (620 - 580 BC) who wrote:

“Not houses finely roofed, or the stones of walls well built, nay nor canals and dockyards make the city, but men able to use their opportunity.”

Jacobs makes the important point that agriculture and pastoral life depend upon the cities, not the other way round, as so many people (particularly country folk) have believed. Agriculture (including plant breeding) developed first in and then around the city, and spread outward from the cities as waterborne transport, increasingly by canals, enabled vegetables and other perishables to be brought to the city for immediate consumption. Meat was usually butchered in the city on a daily basis but fish were salted and could be stored for months. The meat market at Smithfield in the centre of London has been operating for centuries.

Houston a role model of free development

The city is where economies grow or shrink, where trade increases or declines, where innovation is vigorous or sluggish, where populations increase or decline, where science, invention and knowledge flourish or shrivel, where men “able to use their opportunity” can become rich or remain impoverished.

Cities of the first kind are places where people, particularly those with talent, energy and ambition, go to seek their fortunes, and these cities increase in wealth and influence and confidence in the future. Houston, Texas, is such a city. With its surrounding counties it now has a population of about 6 million, with 400,000 new arrivals each year. Like Melbourne, Houston was founded in the mid-19th century, and became an inland port after the founders built canals linking the new town to the Gulf of Mexico, 32 kilometres to the south, thus setting up in competition to Galveston, a port on the coast.

Houston is world famous for its refusal to countenance zoning regulations and other town planning doctrines which are taken for granted in Australian cities. One important consequence of this anti-planning policy is that housing costs in Houston are half of what they are in Australia. In Melbourne and Sydney, an average family home will cost six to eight times average yearly earnings, but in Houston the figure is three to 3½ times. This price differential has an enormous impact on people’s lives, in particular affecting the rate of family formation and decisions on child-bearing.

Houston, then, is the best example in the contemporary world of a city that fulfils Alcaeus’s dictum of men “using their opportunity”. In Australia, we have two big cities, Melbourne and Sydney. Australia is a destination of choice for immigrants both legal and illegal from all over the world. So despite the ruinous cost of housing in both these cities, population growth continues, although Melbourne is outstripping Sydney in immigrant numbers.

Jacobs criticised Adam Smith for entitling his influential treatise *The Wealth of Nations*, and for his continuing emphasis on economic comparisons between nations such as Britain and France. She pointed out that Smith accepted without question the mercantilist belief that the nation-state was “the salient entity for understanding the structure of economic life”. This is explicit, she says, “not only in the title of his work, but in its first sentence”:

“The annual labour of every nation is the fund which originally supplies it with all the necessities and conveniences of life which it annually consumes, and which consists always either in the immediate produce of that labour or in what is purchased with that produce from other nations.”

Smith performed one great service in that he showed with matchless prose that trade between nations (England and France particularly) was a positive sum game; not a zero or even negative sum game as the mercantilists fervently believed, and that all trade led to gains for both parties. It would, however, have been more accurate if Smith had discussed trade between cities.

If the city is the place where economic, cultural, scientific endeavour and intellectual life takes place, where does the nation-state find a place? In Periclean Athens, the city and the state were coincident, and although Athens was the centre of an empire, that empire was based on the Athenian navy, and on the security which that navy provided for the trading world of the Eastern Mediterranean. It was a forerunner of the 19th-century Pax Britannica during which the Royal Navy ruled the seas, to the very great benefit of all those who relied on ships to carry their exports and imports around the world.

Stereotype of rural superiority

The primacy of the city has cultural as well as economic significance. City dwellers have often been depicted as morally inferior to country folk, and some leading politicians have sought to create a rural persona to encourage faith in their trustworthiness. Cities have always been suspected as centres of vice – Sodom and Gomorrah are the archetypes.

The superiority in both mind and body of country people became an article of faith for many farmers and pastoralists. This belief helped the founders of the Country Party, notably Earle Page, who came back from the Great War and amidst the political divisions which Billy Hughes fostered, and which eventually brought him down, was able to build a coherent political party based on rural virtues and beliefs, and on the support of small wool-growers and soldier settlers who tried to make a living on uneconomic farms. Earle Page served as deputy prime minister first under Stanley Bruce and then under Joe Lyons.

The free-trade MP Bert Kelly (who wrote The Modest Member column for *The Australian Financial Review*) used his farm as a source of parables in his life-long campaign against protectionism and, because they were both authentic and compelling in the economic wisdom they conveyed, he found disciples on both sides of politics. And it was the Hawke-Keating-Button government that began the process of rolling back the protectionist fortress which had been set in place by Alfred Deakin 80 years before. They were supported by the Howard-led opposition, a policy position which was strongly reinforced by Ian McLachlan in his role as shadow industry minister.

Australia does not quite fit the Jacobs model because the industries which provide the wealth necessary for our defence expenditures come not so much from the cities, but from the mines and the paddocks that provide us with the export income which keeps us solvent.

However, the administration of the mines, and the decisions to invest or not to invest in new projects, takes place in the cities. Collins House (360 Collins Street, Melbourne) was the

headquarters of the great mining companies which grew out of the discovery in 1883 of the fabulous silver deposits at Broken Hill, 837 kilometres away in far-western NSW. The reason why Melbourne rather than Sydney became the mining capital was because, in 1883, Melbourne was where the money was.

Sixty years ago, when Australia's prosperity was determined by the wool price, the wool-broking firms were centred in Melbourne, Sydney and Fremantle, where the wool was auctioned and then shipped around the world. So although the wool was grown all over the country, the business of sorting, selling and exporting the wool was located in three cities. The wool-brokers were also involved in financial activities, in competition with the banks.

Centralisation concerns overruled

A constant complaint about politics in Australia today is that power is centralised in Canberra and what was constitutionally a federation has now become a unitary state with the states acting as "service providers", not sovereign members of a federation. There are many egregious examples of this situation. Education provides one. The constitution nowhere prescribes any commonwealth role in education. But the Commonwealth Department of Education has 4000 bureaucrats, none of whom ever see a student and, using its financial muscle, interferes in great detail in the administration of schools, both government and non-government. Prime minister John Howard decided to introduce a "national curriculum" and confidently believed he could purge it of black-arm-band history and other leftist nonsense. In this, as in other matters, he was deluded.

Four of the six states – NSW, Victoria, SA and WA – are extensions of their capital cities, Sydney, Melbourne, Adelaide and Perth. Queensland is unique in that a majority of its population does not live in Brisbane, and there has been continuing agitation for the creation of a new state of North Queensland.

Tasmania, the smallest and poorest state, has two rival cities, Hobart – the capital (pop 217,000) and Launceston (106,000).

In terms of real-politik, then, the Australian nation comprises four major cities which are growing – Sydney, Melbourne, Brisbane and Perth; and two smaller cities, Adelaide and Hobart, which are in decline.

A federation of states

But these cities are ruled in ever-increasing detail from Canberra and, despite the abject failure of every referendum seeking popular support for constitutional change which would increase the power of Canberra, the High Court, ever since the Engineers' Case of 1921, and the taxation arrangements which came into effect with the outbreak of war in 1939, which turned the Commonwealth into a taxing leviathan, have combined to give us the centralist, unitary, state which the constitutional fathers did their best to put beyond the reach of ambitious politicians. Tragically, they failed.

In political life, most citizens of Melbourne think of themselves as Victorians rather than as Melbournians, and similar ways of thinking are found in the other states with the exception of Queensland, where secession is still a live issue in North Queensland. But this is not true in

business life. Cities are where economic life is concentrated and businessmen and women are focused on the economic opportunities which the city provides, either within itself, or internationally through trade with other cities.

If we look at the Australian federation in terms of its cities, we see that Brisbane's sphere of influence extends into north-western NSW. Melbourne's northern boundary is the Murrumbidgee rather than the Murray, Adelaide was unlucky that Broken Hill was just across the state border and so the royalties went to Sydney. But South Australia is very prospective, and when BHP gets its act together and develops the huge open cut mine it plans for Olympic Dam, the royalties from that mine should transform Adelaide and SA. Copper mining began in South Australia in 1843 and the triangle based on Kadina, Moonta and Wallaroo was known as the copper triangle, and also as Little Cornwall.

Perth is one of the most isolated cities in the world. But the wealth generated by the iron ore developments in the north have made it a prosperous city. Goldmining has also been a major industry since the 1890s, and historian Geoffrey Blainey tells us that when Victoria went bust in 1892-3, many breadwinners from Richmond, Collingwood and the other inner suburbs which are now very fashionable, sailed from Station Pier to Esperance and walked from there to the goldfields, 322 kilometres north.

There is a dispute over whether or not these expat Victorians enabled WA to get the numbers to accept the federation proposal during the referendum of 1900. WA voted for secession in 1933 but prime minister Joe Lyons bought them off with the Grants Commission.

Canberra popular with rent-seekers, not the people

I was taught at school in the 1940s that it was not until the Gallipoli disaster that national sentiment began to establish a firm place in the minds of Australians. And then of course, came the massacres on the Western front, when so many Australian lives were lost in unbelievably stupid and tragic military adventures. There was hardly a family which was not affected by these losses; in a strange way, this war-time tragedy entrenched Australian patriotism.

At the beginning of the war, the federal government used its wartime powers to assume control of income tax, which had previously been a state preserve. After the war, it took little persuasion from the anti-federalists to ensure that income tax stayed with the Commonwealth. Regrettably, the state premiers of the time made no attempt to regain their taxation powers.

These days we have an unhappy situation in which Canberra is taking on more and more interest in the minutiae of daily life, and state governments, with the notable and important exception of Queensland, are seemingly content to go along with it.

This is not something which Australians support. High Court Justice Ian Callinan, in his dissenting judgment in Work Choices, made the point that every referendum designed to increase the role and reach of the Commonwealth, bar one, has failed; and not just failed; but failed seriously. It is the High Court, with its interpretation of the corporations power, which has opened the flood gates to the centralist tide coming out of Canberra.

We can only hope that at some point the people will get sick of it, to the point where politicians can see their career prospects enhanced by returning to the federalist cause. Canberra is not popular with the majority of Australians, but it is popular with rent-seekers because, if successful, they can reap, in one stroke, a rich reward. The latest example of such rent-seeking is the attempt by wind-turbine manufacturers and wind-farm proprietors to override state regulation (on behalf of those people unfortunate enough to live near these things) which will prevent any further investment in this scam.

One factor in the disdain, which is ubiquitous in Canberra, towards the states is the condescension with which federal politicians look upon their state counterparts. If you are not good enough to get preselection for a safe federal seat then a state seat is a second or third prize.

One of the proposals during the constitutional debates of the 1890s concerning the election of the Senate was that the state governments should decide who should represent their states in what was designed as a States House. Regrettably, this proposal did not get up, and the arguments about how senators should be chosen have never reached a permanent conclusion.

Now that the composition of the new Senate has again become a matter of controversy, with the sixth senator from each state selected by chance rather than the desires of the electorate, we have an opportunity to remind the Australian electorate that the Senate was supposed to protect them and their states from overweening centralism. At the time of federation this was seen as Melbourne and Sydney versus the rest of Australia, and without some guarantee of protection of state sovereignty the referenda endorsing federation would have failed.

Now it seems that party discipline, unknown until the infant ALP adopted it just before federation, has turned the Senate into a party's house.

The time has come to recognise formally the centrality of cities in our political life, and to return to the state governments the power to nominate the senators who will represent their states in the Senate.