Competitive Federalism

Competitive federalism can refer to state of affairs between regional governments (horizontal competition) and between central and regional governments (vertical competition). The idea of horizontal competition between the regional governments is advocated by those wishing to apply free-market economic principles to federalism. Consistent with classical (Locke) and neo-classical (Hayek, Nozick) liberal beliefs, proponents of horizontal competitive federalism hold that government (or, “the state”) constitutes the greatest threat to individual liberty. This is because of the government’s capacity to prevent (prohibit, tax, fine or incarcerate) individuals from acting in ways that maximise their self-interests. It is also reasonable to point out that many proponents can be characterised as public choice theorists (Buchanan) who contend that the best way to counter this threat is by limiting the size of government. Hence, they advocate the devolution of powers from the centre to the smaller, peripheral states.

Furthermore, and also in keeping with the precepts of classical / neoclassical liberalism and public choice theory, proponents of horizontal competitive federalism contend that the most efficient forms of government can only be realised through competition. It makes sense, in this instance, for the states of a federation to adopt different political regimes and policies in an effort to determine “the best.” There are similarities here with laboratory federalism; however, whereas as laboratory federalists are not especially predisposed towards particular policy solutions (other than those that are found to work), competitive federalists believe that competitive, market-oriented policy solutions will always produce better outcomes.

In 1994, for example, Wolfgang Kasper (1994) identified four “principles” of competitive federalism that Australia needed to adopt to compete on the international economic stage:

- **subsidarity**, which requires that decision-making be centralised only when it can be shown that this would be more efficient than if it were devolved to each state;
- **rule of origin**, products and services should be accepted anywhere in the country, once they have been certified in one state;
- **assignment of tasks**, that is, the overlap between State and Commonwealth responsibilities should be removed to reverse the gradual encroachment by the Commonwealth into policy areas traditionally regarded as the States’ domains and responsible for a doubling-up of regulation and administration; and
- **fiscal equivalence**, this holds that each unit of government should be responsible for its own revenue raising and people should pay in full for government services (“user pays”) and, so, remove the practice of free-riding.
Horizontal competitive federalism is essentially a prescriptive form of federalism and a means to an “ideal order.” The goal is smaller, minimal governments; ones that are efficient and fiscally responsible.

Competitive federalism in its vertical guise recognises competition between central and regional governments. This *may* entail positive policy learning in areas where there is overlap between the two levels of government, with each level pursuing distinct policies and observing which policies are more successful. However, in Australia over the past decade, the competition has been more negative with the Commonwealth encroaching more into areas traditionally considered primarily the responsibility of the States. For example, in 2007, the Commonwealth sought to gain full control over the Mersey Community Hospital in Tasmania on the grounds that the Tasmanian government had failed to provide the local community with an adequate intensive care unit. The Commonwealth claimed that it was not matter of which level of government provided a service, rather which level provided the best service.

**Further Reading:**

