

## Chapter Six

### The Politics of Federalism

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In 1967 Sir Robert Menzies published *Central Power in the Australian Commonwealth*. In this book he adopted the labels coined by Lord Bryce to describe the two forces which operate in a federation—the *centripetal* and the *centrifugal*. For those uneducated in physics, such as myself, centripetal means those forces which draw power towards the centre, or the Commonwealth, whilst centrifugal forces are those which draw power outwards towards the States.

Menzies remarked that these forces are constantly competing against each other, and that the balance between them is never static.<sup>1</sup> Not surprisingly, his view in 1967 was that the centripetal forces had well and truly predominated during the previous 66 years of Federation. Of course, he would not need long to reach the same conclusion were he to consider the same question now, 40 years later.

Essentially there are three levels on which these two forces exert themselves. The first and most fundamental is the legal level, which describes the constitutional structures which determine the federal balance. On questions of federalism this Society has since its inception quite rightly concentrated most on this level of federalism, as it is at this level that the most profound changes have occurred. It is also the most influential level, as it sets the boundaries within which the other two levels can operate.

The second level is what I would call the financial level, and this level concerns itself with the question of the relative financial powers of the States and Commonwealth. In particular, this level is characterised by the ever-increasing financial dominance of the Commonwealth relative to the States, and the “vertical fiscal imbalance” with which the States have had to contend for most of their existence since Federation. It goes without saying that, as more financial power has passed to the Commonwealth, more political power has generally followed, though this has not always been, and need not always be, the case.

The third level of federalism, the level on which this paper is concerned, is what I describe as political federalism. This is the level that manifests itself in the political contest between States and Commonwealth as to who should do what. Whilst the boundaries within which the political contest takes place on this level are determined by constitutional and financial constraints, this political contest can, on its own, significantly alter the federal balance in practice. Menzies acknowledged this concept in his book when he said that:

“The relations between the Central Government and the States are inevitably, in a federation, most complex. Developments occur every year, some of them almost invisible to the purely legal onlooker”.<sup>2</sup>

Though they may be invisible to a purely legal onlooker, in the sense that no change to any legal structures or financial agreements has taken place, they are very much obvious to the political onlooker. In 2007, arguments over political federalism have reached a level of prominence not seen for decades, despite the legal and financial levels remaining static.

The premise of this paper is that, in recent years, some of the most notable shifts of power towards the Commonwealth have not been due to changes on the first two levels of federalism, but changes on the political level. Furthermore, this is a trend which has become stronger and stronger under the current federal government and the current crop of State governments. Political federalism has become increasingly topical in this election year as the Commonwealth, much like the Starship *Enterprise*, continues to boldly go where no Commonwealth government has gone before in its encroachment on State powers.

My contention is that the Commonwealth has felt so emboldened to exert its power at the expense of the States because now, more than ever before, it feels it can win the political argument. In addition, there is now an increasing public acceptance of such intervention and, in many cases, a public demand for it.

The corollary of this argument is that the Commonwealth has felt increasingly able to broaden its own powers because the States have made a mess of issues in the first place and, increasingly, look to the

Commonwealth themselves to either solve their problems for them, or bear the cost of their own policy ideas. In so doing they are ceding their political authority to the Commonwealth and, as a result, further reducing their ability to resist the Commonwealth's encroachment.

By the phrase "political authority" I mean two things—first, the level of faith that voters have that their State government is best positioned to manage certain issues, and secondly, the ability of State governments to win the political argument when they come up against the Commonwealth. In all of the examples I cite below, the States have either lost the argument, or contributed to bringing Commonwealth intervention on themselves by failing to manage adequately on their own. In all these examples, where the States have ceded their political authority it has been a result of political controversies—questions of changing legal or financial balance hardly played any role at all.

### **The financial environment**

Before commenting on the political environment it is worth making some brief remarks on the financial environment.

The Commonwealth's disproportionate financial power since the 1940s has clearly created an environment of State subservience and reduced the States' ability to resist Commonwealth encroachment. Victoria's greatest Premier, Sir Henry Bolte summed up the dilemma facing State governments in 1972 when he remarked:

"As a State Premier I want the cash on the most favourable terms; but if the terms are not all that favourable, I still want the money".<sup>3</sup>

States have always been in a weaker bargaining position, and in many cases have had little choice but to ultimately accept the Commonwealth's terms. Whilst this may explain some of their loss of political authority, it does not excuse it.

The issues of Commonwealth financial control which faced Henry Bolte four and five decades ago have also faced all subsequent State governments. There has been a great deal of continuity in the ways in which the States have attempted to address such issues. For example, in 1970 the States proposed to the Gorton Government that they receive a fixed share of income tax (30 per cent) and access to growth in Commonwealth grants that would match the increase in the rate of Commonwealth tax receipts.<sup>4</sup> They complained that growth in their revenue responsibilities had exceeded growth in their receipts from the Commonwealth. This was to be a recurring complaint.

The States finally achieved their goal of guaranteed revenue from a Commonwealth "growth tax" 30 years later when the Goods and Services Tax (GST) was introduced. In theory, this should have had the effect of re-empowering the States financially and restoring some of their political sovereignty.

The GST in many respects overcomes the previous problems of fiscal imbalance by giving the States a growing source of untied grants. Not everyone agrees with the Commonwealth's characterisation of the GST as a State tax collected by the Commonwealth, but when one considers the figures for State budget enrichment as a result of the GST, they are truly startling.

In 2000, prior to the GST commencing, it was estimated that States and Territories would benefit in the first eight years by \$3.7 billion over and above the previous arrangements. Within only five years that figure had grown to almost \$10 billion. Between 2005-10, States and Territories are predicted to be \$16 billion better off than they would have been under the pre-GST arrangements.<sup>5</sup> In Victoria, for example, in 2004-05, Commonwealth grants (including GST) constituted 45.5 per cent of total State revenue, with the GST having grown to 25 per cent of State revenue.<sup>6</sup>

It is worth bearing these figures in mind when we consider some of the State requests for *further* Commonwealth funding that I refer to later on.

John Howard described the GST as "the most important federalist breakthrough since the Commonwealth took over income tax powers through the exercise of the defence power during World War II",<sup>7</sup> and in the abstract it arguably is. But in terms of its practical effect of changing the political dynamic of federalism it has singularly failed. Its initial goal of empowering the States by increasing their financial independence has not been realised. In fact the opposite has occurred, as States have instead become increasingly reluctant to accept greater political responsibility for their affairs.

It is not unreasonable to argue that the constantly growing stream of no-strings attached money that the States are now receiving has effectively become the political equivalent of "Sit Down Money". As the money has kept pouring in from a tax that the States themselves do not levy, they have become fiscally lazy,

and have lost the willingness to exercise the kind of fiscal responsibility that they once would have been forced to exercise in less lucrative times.

### **Recent examples of Commonwealth political authority**

There have been numerous examples of the politics of federalism in the past twelve months which have each seen the States lose more of their political authority. What is most notable is that, in almost all of these examples, the Commonwealth was not proposing any substantive change to the legal or financial structure, but relying on the oldest and most common means for expanding its powers—s. 96 tied grants.

Although numerous examples exist, it is worth concentrating in closer detail on those which occurred in the States' two most significant fields of responsibility—schools and hospitals. We hear so many references by State politicians to “schools’ n’ospitals” that it has almost become a new five syllable word in the vernacular, but in the case of both education and health policy, it is clear that the States have been letting their side down. The Commonwealth is now more dominant in both these fields than it has ever been.

### **Education**

In the last three years education has been the theatre for a political conflict that was as much cultural as financial, as the Commonwealth sought to influence political debate about its own preferences for school curriculum, school governance and school “values”. This was a philosophical argument the Commonwealth thought it could win, sensing State government weakness and public disaffection at the state of State schools.

In 2004 the Commonwealth began its new program of assertiveness by first tying school funding to “plain English” school reports.<sup>8</sup>

It then launched a campaign against school curricula of dubious quality, such as the unfortunately named (and even more unfortunately implemented) “Outcomes-Based Education” (OBE) and “Studies of Society and the Environment” (SOSE), and raised the prospect of imposing new funding conditions if States did not re-introduce more rigorous curricula.<sup>9</sup>

It then insisted on greater accountability and autonomy in the way individual schools were managed, including the power to “hire and fire” teachers.<sup>10</sup>

It's not hard to see why the Commonwealth thought it was on a winner in this area. The existence of “outcomes-based” school curricula, and school reports written in mumbo jumbo, is reminiscent of the joke in *Yes Minister* about the adoption of “comprehensive” education in the UK. Bernard Woolley explained to the Minister who actually wanted it—not the students, not the parents, only the teachers' unions. The same is probably true of the origins of similar curricula in Australia, but none the less every State had, to some degree, adopted such measures. Even NSW Premier Morris Iemma was driven to public despair at the unintelligible nature of his children's school reports,<sup>11</sup> which probably prompted even greater despair amongst other State school parents that it took him ten years in government to notice. In terms of the political contest with the Commonwealth, this was effectively a pre-emptive surrender by NSW.

Such an encroachment by the Commonwealth into a clear area of State jurisdiction may once have seemed politically novel. But it seemed to work. Following Morris Iemma's sudden seeing of the light, in July, 2006 Western Australia abandoned a planned roll-out of OBE in senior high school levels, whilst still maintaining that it disapproved of the Commonwealth's intervention.<sup>12</sup> A brief campaign to defend its OBE policies then followed, with the highlight undoubtedly being the comment by its then Education Minister, Ljiljanna Ravlich, who suggested that students did not need to be taught key historical events or dates, as they could use Google to find out what they were.<sup>13</sup> Thankfully, she is no longer Education Minister. But it was not long before WA followed the other States in raising the white flag.

Perhaps realising that the *status quo* could not credibly be defended, by April, 2007 all States had agreed to get rid of Outcomes-Based Education, as well as abolish “Studies of Society and the Environment” and replace it with separate history, geography and economics subjects.<sup>14</sup> They did not try to mount a defence of their existing arrangements—they effectively conceded the argument and the political victory to the Commonwealth.

It is worth considering just how realistic the Commonwealth's threats to withhold billions of dollars in schools funding would have been had the States tried to resist and called its bluff. If they really had believed in Outcomes-Based Education and Studies of Society and the Environment then perhaps they would have mounted a political argument, if they had been confident of public support. But even recipients of Outcomes-

Based Education would have been able to see that popular sentiment favoured the Commonwealth, and the States would have clearly been defending a highly unpopular position. It reflects very poorly on the States that they either failed to respond to years of public sentiment in favour of common sense education, or they were too captured by vested interests of teacher's unions and the education bureaucracy to bother doing anything about it themselves.

It would be interesting to consider how a plan for such a significant intervention by the Commonwealth would have played itself out politically in times past. If John Gorton had proposed a similarly interventionist plan to dictate school curricula in 1970, it seems fairly likely that the likes of Henry Bolte, Joh Bjelke-Petersen and David Brand would have fought it very strongly, and won the political battle. In fact, they probably would have eaten Gorton alive. As recently as 1993 Paul Keating was "rolled" by the States when he attempted to introduce a form of national school curriculum. It is certainly hard to imagine the likes of the Kennett and Court governments responding as meekly as the current State governments did.

## Health

Menzies was indeed prescient when he commented in 1967 that:

"It is so easily said about any local problem, 'Well, why don't you take this to Canberra? Why don't you get the Commonwealth to do something about it?'"<sup>15</sup>

Never was this more true than in the area of responsibility for public health services, where handballing problems to the Commonwealth seems to be part of the standard operating procedure for State governments.

The States provided clear evidence of this approach in June this year, when the eight State and Territory Health Ministers published a report entitled *Caring for our Health*, which was ostensibly a report into the state of the Australian health system designed to encourage "transparency and accountability about our own performance, and to working with the Australian Government to improve the system as a whole".<sup>16</sup>

The report claimed to be intended to highlight where the States thought the Commonwealth was under-performing, but its highlights leave the reader in no doubt as to how the States perceived their own responsibilities, or lack thereof:

"Health care is becoming more expensive, and more of it will be needed as the population ages. ... **Is the Australian Government doing enough to care for our health, both now and in the future?**"<sup>17</sup>

"Free access to public hospitals is ... **a continuing responsibility of the Australian Government**".<sup>18</sup>

"**The Australian Government is responsible for educating the majority of this health workforce.** Unless it increases student numbers dramatically across all health professions ... there will continue to be significant staff shortages in the future".<sup>19</sup>

"If you were starting from scratch and designing a way to look after a person with diabetes, or heart failure, or recurrent anaemia, or even someone who was dying with dignity, you would not start with a hospital. You would start with providing health care in the community. **Will the Australian Government work with States and Territories to build up community services to deal with the change in disease patterns?**"<sup>20</sup>

The most remarkable thing about this report is that it contains not a single detail of what the States are doing to address these issues. Whilst it disingenuously calls on the Commonwealth to "work with" States and Territories, it does not show what, if any, initiative they are taking themselves. In every instance where there is a problem with health provision, the sole purpose of the report and, it would appear, the sole policy of the States, is to set up the Commonwealth to take the blame.

I have previously argued that the States are losing their political credibility. But this is not simply because of Commonwealth expansionism. Their approach to health management resembles the famous tactics of Ron Barassi in the 1970 VFL Grand Final, which has been described as, "Handball, Handball, Handball!". When they cede their responsibilities in this way they are willing participants in their own political decline.

In such an environment it is not surprising that the Commonwealth now feels emboldened enough to by-pass the States and directly fund and administer State public hospitals. It did not have to be this way. As recently as February, 1994 a State Premier (Richard Court) unambiguously stated that:

"Health and Education are just two key areas of Australian life in which both the formulation and delivery of services should be done at a local level so that these services are both appropriate and accountable".<sup>21</sup>

This was a clear statement of a State government willing to accept primary responsibility for service provision. In 2007, as *Caring for our Health* makes clear, it is no longer possible to find a State government willing to accept policy and service delivery responsibilities for its hospitals.

This co-ordinated policy of squibbing by the States gives all the indication of a deliberate and ongoing political strategy on their part to seek to put responsibility at the feet of the Commonwealth. It seems part of their day-to-day political management of issues in the health portfolio. The consequences of such an approach are now coming home to roost.

Only two years ago, in April, 2005 the Commonwealth Health Minister floated the idea of completely by-passing the States and allocating health funds directly to “regional bodies”,<sup>22</sup> only for the Prime Minister to reply that:

“I am not persuaded that the effectiveness or efficiency of healthcare in Australia would be improved by the Commonwealth assuming responsibility for public hospitals”.<sup>23</sup>

Clearly something has changed since then. The Commonwealth has recently announced a policy of “inviting” public hospitals to volunteer themselves for take-overs.<sup>24</sup> It’s still too early to tell how this policy will work out, but the initial indications surrounding the Mersey Hospital in Tasmania are that this could be a popular policy and more takeovers could result.

The intervention in the Mersey Hospital in Tasmania is likely to be viewed by many through the prism of Commonwealth political expediency in an election year, but this does not tell the full story. When asking, “How has it come to this?”, State governments might well look in the mirror and consider their own role in how their handballing strategy has created the environment in which the public has lost faith in their ability to do their job properly, and led to a situation where such a Commonwealth take-over is likely to be a vote winner.

Yet the State handballing strategy shows no signs of changing. In June this year the New South Wales government announced a new policy for public dental health services—only to cry for the Commonwealth to fund it as soon as it was announced.<sup>25</sup> This led to the predictable retort from the Commonwealth that States had become “glorified beggars”, rather than sovereign states willing to take responsibility for their own programs.<sup>26</sup>

Perhaps some form of “mutual obligation” is required when States receive Commonwealth money. The slightest sniff of Commonwealth money seems to render States politically lazy. In the same way that Sit Down Money has created a cycle of poverty in remote indigenous communities, State government Sit Down Money creates a cycle of political poverty for the States. The more they handball the issues to the Commonwealth, the more public opinion starts looking to the Commonwealth to solve the problem, and the more emboldened the Commonwealth becomes to interfere even further.

### **Other examples**

Health and education are not the only examples of States failing in their duties. As an editorial in *The Australian* recently put it:

“Everywhere voters look, they see examples of State government incompetence: teachers who refuse to write plain-English report cards; queues of ships waiting to load coal at ports with insufficient capacities; trains that are late; hospital queues to get operations performed and medical staff who have not been properly vetted”.<sup>27</sup>

Further examples of State incompetence this year are not hard to find:

- Victoria’s transport minister saying she didn’t really want to run a train system;<sup>28</sup>
- Victorian Premier Steve Bracks upon his retirement, saying that one of his proudest achievements was the so-called “Regional Fast Rail” project<sup>29</sup> that was over two years late, 10 times its original budget and had average time savings of barely a few minutes on most lines. If that is a successful State project I’d hate to see a bungled one;
- The Commonwealth’s unprecedented intervention in the Northern Territory to ensure that remote indigenous communities receive even the most basic modicum of services in relation to education, health, and law and order—all fundamentally the responsibility of the Territory government. Once again, the Territory could not credibly argue that it was better able to meet this challenge: it was another meek political surrender; and
- The latest proposal, announced on the day of this conference, for the Commonwealth to manage the nation’s ports under a new Commonwealth-controlled body.<sup>30</sup>

The political environment is clearly changing in ways which are highly unfavourable to the States. Last year John Howard justified his increasing centralism in the following way:

“This Government’s approach to our Federation is quite simple. Our ideal position is that the States should meet their responsibilities and we will meet ours. And our first impulse is to seek state cooperation with States and Territories on national challenges where there is overlapping responsibility. But I have never been one to genuflect uncritically at the altar of States’ rights... while ever the States fail to meet their core responsibilities there will be inevitable tensions in our federal system”.<sup>31</sup>

This is certainly not a comment that Menzies would have made. But then again, Menzies had State leaders of the calibre of Henry Bolte. It’s not surprising that John Howard has adopted such a position when confronted with some of the laziest, most inept State governments we have ever seen.

In response to the increasing Commonwealth assertiveness, the States have made some attempts to regain some political initiative. On the eve of this year’s Council of Australian Governments (COAG) meeting in April, the States released a report detailing a grandly-named “10-year Plan to Lift Productivity”.<sup>32</sup> Once again, this big idea of the States immediately called for Commonwealth funding of things such as:

- Expansion of early learning for four-year-olds and providing greater access to childcare;
- Improved literacy and numeracy standards;
- Programs to improve exercise and diet; and
- A plan to boost energy efficiency and a rollout of “smart meters” to help households reduce energy bills.

With the arguable exception of child care, these are all clear areas of State responsibility. Most of these proposals, although clearly in the realm of the States, called for Commonwealth funding of at least 60 per cent of the cost. If such contributions are not forthcoming, then presumably we can expect to see the States handball the blame to the Commonwealth for such programs not coming to fruition.

Once upon a time the issue of Vertical Fiscal Imbalance caused great concern for federalists. Perhaps now it is time to coin a new phrase—Vertical Accountability Imbalance, which can be defined as the imbalance which arises when one level of government wishes to accept a lesser level of responsibility than the level required for the services it provides.

## **The Second XI?**

At this stage it is perhaps worth commenting on how State governments came to be in such a position. Perhaps there are underlying issues with both the political strategies they choose to adopt and the people in them which lead to poor performance. One Commonwealth Minister this year said people don’t want important issues left to the “Second XI” of State governments.<sup>33</sup> Perhaps there is some substance to this argument.

The revelations earlier this year of the astounding influence that former Premier Brian Burke holds over most of the WA government did not exactly fill anyone with faith that this particular State government is full of particularly intelligent or ethical types. When similar allegations were made about the influence wielded by former Labor Minister David White in Victoria this year, Victorians would have had equal reason to be concerned. Those concerns were certainly not assuaged when Premier Steve Bracks re-assured us that:

“David White was a respected Minister who now has a business operation and he is undertaking his business activities ... there is no comparison at all with the former Premier of New South Wales Brian Burke”.<sup>34</sup>

One particular pessimistic commentator in *The Age* earlier this year was certainly in no doubt that our current State governments are not exactly drawn from the deep end of the talent pool:

“By any reckoning, one State government (WA) is irredeemably corrupt, two (Queensland and Tasmania) have major problems in that regard, and Victoria’s ‘secret’ police union agreement suggests Steve Bracks is no Mr Clean. NSW, at the very least, seems to attract some extraordinarily low life to its parliamentary ranks. This leaves only South Australia as passably respectable...”.<sup>35</sup>

To paraphrase Lady Bracknell, one corrupt or inept State government may be regarded as a misfortune. Five certainly looks like carelessness, and raises serious questions about the people who comprise them and the way they operate.

Almost invariably State Labor governments are these days dominated by people with pre-parliamentary careers as either union officials, political staff for Labor MPs or Labor head office employees—in other words, those who are insiders of the Labor Machine.

The Hawke-Wran review of the Labor Party in 2002 identified this issue as a significant problem for the party's future and criticised:

“... the growing malaise in Australian politics that arises from this fast-tracking of people, the research officer of the trade union or the politician largely associated with the major factions, so we are not getting the diversity of candidates and the diversity of experience”.<sup>36</sup>

Hawke and Wran were right to be concerned. For example, almost 90 per cent of the ministry in the Victorian government is comprised of people with a Labor Machine career. Their whole life is spent in the Machine, so they tend to see State government—and its trappings—as merely an extension of the Machine. They see their role as political operatives and fixers, and primarily servants of the Machine, rather than bold leaders with vision who are actually representative of their communities.

Of the eight Labor State and Territory Premiers and Chief Ministers, six of them came through the Labor Machine. The other two were ABC journalists, so arguably they fall into the same category anyway.

No less a State political figure than Neville Wran has said that he would struggle to even gain preselection in the modern ALP because he had a career outside politics and was not a Machine insider.<sup>37</sup> This is a staggering comment about the narrow, insular political class that now runs all our States.

Unless the Labor Machine has some magical quality about it that produces a master race of philosopher kings who are more suited than anyone else to public office, then it does seem rather anomalous that people drawn from this narrow spectrum of life experience should have a near-monopoly on all senior positions in our State governments.

The perverse results of having State governments full of uncreative machinists probably reached its nadir with the election slogan of the NSW Labor Party in this year's State election: “More to be done but we're heading in the right direction”. Based on such a slogan, we can only conclude that the NSW government does not know what it's going to do, what even needs to be done, nor after 12 years, what it actually has done. Paul Keating recently said that successful politicians needed two qualities—imagination and courage.<sup>38</sup> This slogan clearly shows that the NSW machine concedes it has neither. It is not an encouraging sign.

### **Future alternatives?**

The problems of State government squibbing and Vertical Accountability Imbalance now seem to be acknowledged by both sides of federal politics. The federal Labor Party's most recent attempt to address the issue was recently announced. Its policy is to get rid of Specific Purpose Payments and instead make almost all Commonwealth grants to the states “untied”, with only “bare bones” minimum standards to be attached to them. Its proposal is as follows:

“For those areas where it is agreed that shared responsibility between the Commonwealth and the States should continue, the aim should be to identify and agree on the respective roles of each level of government. Collaborative federalism should then be founded on a partnership between the Commonwealth and the States, where there is proper consultation on program objectives and information demands. The States would then have considerable discretion and more flexibility as to how they achieve those objectives, having regard to their particular local circumstances”.

In theory this seems like a sensible solution to encourage the States to accept greater responsibility. But recent experience suggests that in practice this is unlikely to be the case. This proposal runs the real risk of simply exposing the States to the same trap as the GST—more no-strings attached money will mean more Sit Down Money.

If anyone needed evidence of the likely pitfalls of such a policy it was provided on the very day that the policy was announced by Kevin Rudd as the lead story in *The Australian*.<sup>39</sup> What was interesting was that the second story on the front page featured another Rudd policy, this time to spend \$500 million of Commonwealth money supposedly to make home ownership more affordable.<sup>40</sup>

What is interesting about this policy is that this \$500 million is to be almost entirely allocated to overcoming the red tape imposed by State and local governments, and paying for infrastructure that these two levels of government should be supplying themselves. If State governments (and the local governments for which they are responsible) were doing their job properly, there would have been no need for such a policy in the first place. They would have spent their ever-increasing amounts of GST money cutting their own red tape, and reducing their own taxes which inhibit new home development.

Perhaps this inadvertent policy juxtaposition is an indication of what to expect under Labor's policy. First the Commonwealth will reduce the level of accountability that applies to the States, thus giving them

greater freedom to stuff up. Then, once they have stuffed up, the Commonwealth will come to the rescue with buckets of its money to fix the mess the States created.

### **Future solutions?**

So how do we solve the problem of Vertical Accountability Imbalance?

The first and most desirable solution would be to see a new breed of State government which had the political courage and the ability to unequivocally accept responsibility for its own affairs, and then act accordingly. Given the record of existing incumbents and, it must be said, the inability of State Oppositions to capitalise on these flaws, this seems unlikely in the short-term. It seems hard to imagine where the next Henry Bolte is going to come from.

Secondly, perhaps greater accountability measures could be introduced when States receive Commonwealth funding. Perhaps a new Grants Commission could be established, to be chaired by Noel Pearson, who can educate the States on the dangers of Sit Down Money, and then whip them into shape to take responsibility for their own affairs. If it can work in dysfunctional Cape York communities then surely it can work in State Cabinet rooms.

Finally, perhaps the least likely but the most desirable course is to give the States their own independent taxing powers commensurate with their spending responsibilities. For supporters of true federalism there is something tragic about an ostensibly sovereign level of government seeking to handball responsibility for its own core business. It is even more tragic now to see both sides of politics at the Commonwealth level going to an election promising to administer services that could and should be provided by the States, if they were up to the task. A balanced tax arrangement would end the problem of Sit Down Money, and finally introduce what is for the current crop of State governments the explosive element of accountability. Let's hope they would be able to handle it.

### **Conclusion**

This paper began by referring to the three levels of federalism. The balance in the political level is currently tilting so far towards the Commonwealth that serious questions need to be asked about how to redress it or, as some are now arguing, whether it even needs to be redressed. The political level is the most open to fluctuation, and in the event of a weak federal government and even one assertive and competent State government, it would be eminently possible to reverse this imbalance within the current legal and financial framework. But a more fundamental re-alignment of the financial and legal levels is probably the only hope of seriously reversing what has been a continuing shift in political authority to the Commonwealth.

It does not have to be that way. Even in their current subordinate state, there is nothing to prevent a State government from demonstrating that it is better at solving problems than "the feds".

Sovereignty entails both sovereign rights as well as sovereign responsibilities. For so long as the States feel they need to look to Canberra to solve their problems, their sovereignty and their political authority is diminished. The more these things become diminished, the harder they are to rebuild. But unfortunately, we are unlikely to see any such rebuilding until we can see a demonstration that somewhere within the States there is the political will, and the political competence, to actually attempt such a task.

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fiscal federalism. the pattern of spending, taxing, and providing grants in the federal system; it is the cornerstone of the national government's relations with state and local government. categorical grants.Â The constitution divides power between the national (federal) government and state government and makes the national government supreme within its sphere. Table of Contents. Chapter 1: Federalism and American Politics: New Relationship in a Changing World. Chapter 2: American Political Parties and Intergovernmental Relations in Historical Perspective, 1787-1960. Chapter 3: National Parties and Politics in Transition: Decline, Evolution, and Resurgence. Chapter 4: State and Local Parties in Contemporary Politics. Chapter 5: Mass Media, National Politics. Chapter 6: Interest group in the American Political Process. Chapter 7: Campaign Finance: The High Cost of Democracy. Chapter 8: Findings, Issues, and Recommendations. ADVISORY COMMISSION ON INTER Chapter 2: Federalism. 2.A " Introduction. 2.B " Units of Government.Â This chapter will demonstrate how a variety of incentive structures propel state and local governments toward greater open-mindedness, experimentation, and learning from experience than is generally the case with the national government. Unlike the more insulated federal government, the several states and their many local governments face increasingly vexing and complex social and economic challenges which cannot be brushed aside in favor of engagement in the rough-and-tumble of global politics and national partisan competition; citizens in our towns, cities, counties and states frequently dem