FISCAL FEDERALISM IN THE CONSTITUTION

- Constitution recognised VFI
- Saw “surplus” returned to states
- Unintentionally sowed the seeds of a very different federal fiscal relationship
High Court upheld two critical decisions of Commonwealth Government

*Main Roads Development Act* of 1923 carried tied grants in an area of government not assigned to the Commonwealth under the Constitution

In 1942 Commonwealth imposed income tax collection with precedence powers over states and retained it after WW2

High Court upheld the arrangement seen as a constitutionally sanctioned form of fiscal coercion
THE SEEDS OF COMMONWEALTH HEGEMONY (ctd)

- Commonwealth’s fiscal hegemony established through
  - Loopholes in the Constitution
  - A High Court with a generally centralising tendency
  - Commonwealth governments of both persuasions accreting national powers
- Tax sharing and tied grants became the fiscal model to the present day
Until the GST in 2001, GPPs negotiated at Premiers’ Conferences.

- Augmented with political side deals
- Uncertain basis for states’ budgets
  - Sovereign risk
With introduction of GST, intergovernmental agreement and legislation established GST revenue as pool for tax sharing

Minor inefficient taxes of states supposed to be eliminated – incomplete

Tax growing with GNE formed a more predictable basis for state revenue with less sovereign risk
Horizontal Fiscal Equalisation

- GPPs distributed according to Grants Commission relativities based on revenue capacities and cost disabilities, essentially unchanged since 1933
- Both pre-GST and post-GST
SPECIFIC PURPOSE PAYMENTS

- Grown strongly since WW2 as Labor governments used them as mechanism for delivering national strategic policies
- Similar magnitude to GPPs in 2010-11
- Dominated by Health and Education (~72% of SPPs in 2010-11)
SPPs AS PROPORTION OF TOTAL PAYMENTS TO STATES

Adapted from Bennett & Webb “Specific purpose payments and the Australian federal system’, Parl Library 2008
Pre-Rudd:

- Policy and finances through sectoral ministerial councils and administrations
- Many controls and accountability closely tied to outputs sought by Commonwealth
- Fixed-duration agreements requiring renegotiation
**Post-Rudd:**

- Separation into National SPPs in six key policy areas, and NPPs for specific projects and developments.
- National SPPs are continuing, indexed, pooled payments tied to target sector.
- Policy and financial arrangements separated – policy agreed between sectoral ministers and finances agreed between Treasurers and transferred between Treasuries – central financial control and accountability in each jurisdiction.
- Accountability to fall principally on states to achieve agreed policy outcomes.
FORKS & BARRIERS ON THE ROAD TO REFORM

- Accountability for outcomes is fraught – government moving in opposite directions in its own administration
- Performance arrangements for Nation Building and Jobs Plan (NPP) were silent on the things that failed and Commonwealth, not states, held accountable
- National Hospital and Health Network reform undoes several features of new arrangements
  - Hypothecates GPPs
  - Constrains state delivery modes
  - Sets outputs as criteria for funding
  - (Attempts to) bypass states and transfer governance and accountability to regional boards
1. Rudd government’s fundamental change of direction vis-à-vis the division of accountabilities is unravelling before it has been fully set in place

2. Government actions indicate ambivalence in their commitment to transferring responsibility and accountability

3. Transferring accountability to states takes more than a change of governance – the public’s sense of who is accountable takes time and experience to develop

4. Seeds of future model may lie in NHHN in connecting Commonwealth to local administrations

5. May be based on revamped layer of local government by using direct funding to coerce states and to overcome their sovereign autonomy