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1-1-2014

**To restore federalism, strengthen the states and make Australia more republican**

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**Recommended Citation**

Melleuish, Gregory, "To restore federalism, strengthen the states and make Australia more republican" (2014). *Faculty of Law, Humanities and the Arts - Papers*. 1683.  
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## To restore federalism, strengthen the states and make Australia more republican

### Abstract

The reform of Australia's federation is under review. In this special series, we ask leading Australian academics to begin a debate on renewing federalism, from tax reform to the broader issues of democracy.

The University of Wollongong's Gregory Melleuish explains how the current state-federal relationship has warped from the ideals of Australia's constitution and why a return to republican principles must be the remedy.>p>

### Keywords

republican, federalism, restore, states, australia, make, strengthen, more

### Disciplines

Arts and Humanities | Law

### Publication Details

Melleuish, G. (2014). To restore federalism, strengthen the states and make Australia more republican. *The Conversation*, (18 September), 1-5.

18 September 2014, 6.29am AEST

# To restore federalism, strengthen the states and make Australia more republican

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## Disclosure Statement

Gregory Melleuish receives funding from the Australian Research Council He is a member of the academic advisory board of the Menzies Research centre

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Australian federalism has moved away from the intent of its founders. [Stephen Bain/Wikimedia Commons, CC BY](#)

*The reform of Australia's federation is under review. In this special series, we ask leading Australian academics to begin a debate on renewing federalism, from tax reform to the broader issues of democracy.*

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When the Australian colonies federated in 1901, the assumption was that the Commonwealth government would not have a lot to do and that most of those day-to-day concerns that impinge on the lives of individuals would remain with the newly christened states. This is reflected in the limited range of areas for which the Commonwealth was given the power to legislate.

However, over time, the power of the Commonwealth has increased considerably in relation to the states. One reason for this has been the rulings of the High Court, especially since the [Engineers Case in 1920](#). However, one of the primary causes for the decline in power of the states has been the loss of their capacity to raise taxes sufficient to fund their expenditure.

The Commonwealth has a monopoly on collecting both customs and excise through Section 90 of the Constitution and, since 1942, income tax. Moreover the High Court has interpreted the term excise broadly such that it is impossible for the states to impose any sort of sales tax.

The Goods and Services Tax was meant to resolve problems raised by the inability of the states to raise sales taxes. The issue, though, is that the Commonwealth collects this tax and hence has the power to allocate it. As the Commonwealth power over income tax is not constitutional but legislative, the possibility of income tax powers being restored to the states is not out of the question.

Very few effective taxing measures remain to the states. They include such things as licences, land taxes, stamp duty, payroll tax and gambling. It should be noted that all states abolished death duties in 1979, following the lead of then-Queensland premier Joh Bjelke-Petersen.

## **Far from the founding vision**

The consequence has been the creation of a very bad condition of vertical fiscal imbalance, which means that while the Commonwealth collects most of the taxation in Australia the states do the majority of the spending. Following [Robert Carling](#) (“The State of Australian Federalism: First Principles”, Policy, 28, 2, 2012, 11), this means that the Commonwealth collects 80% of the taxation in Australia while 22% of Commonwealth outlays go to the states. These outlays on average represent 43% of total state revenue.

This situation is far from that envisaged by the Federation Fathers and indicates how circumstances can lead to an outcome the opposite of what was intended by the original constitution document. Given the opportunity, any government, and especially its bureaucratic advisors, will happily seek to acquire as much power as possible. Hence Commonwealth governments of recent times have sought increasing control over matters that the founders never intended them to have, from universities to schools to hospitals and health.

In this regard, it is worth reflecting on the fact that the federal separation of powers is a form of republican check and balance (similar to the separation of powers) designed to check the power of executive power. It is one of the great tragedies of Australian political life that the years leading up to the Centenary of Federation were spent not in strengthening this form of practical republicanism but in attempting to impose a form of romantic republicanism, which had as one of its goals creating an even more powerful Commonwealth government.

## **Evolving into a monarchical political system**

The real political issue regarding Australian federalism is that it is dysfunctional and fails to prevent ever greater accretions of power by the Commonwealth government. It eats away at the idea of Australia as a Commonwealth and puts in its place practices that are essentially monarchical. The modern equivalent is the vision of Australia as a company and the prime minister as its CEO. A political system founded on monarchy turns citizens into courtiers and subjects.

This can be seen quite clearly in the behaviour of the states. The Commonwealth government holds effective power in Australia through its control of the finances. The states must behave as courtiers if they are to receive the funds they need from the Commonwealth.

Considered in terms of political culture, this means that the states no longer think of themselves as responsible, independent entities but as dependents. They actively avoid responsibility and instead squabble about how much money they should receive from the Commonwealth. The Commonwealth uses its financial power to impose such things as the national school curriculum, regardless of what the states want.

There can be no respect without financial independence. For individuals this means useful employment as opposed to welfare dependency. For political entities this means the capacity to exercise independent judgement rather than subservience to another political entity.

This is a basic republican principle. The issue is how to restore some self-respect to the states so that they can act as they should in our political system.

## **Why the answer is taxation autonomy**

As discussed above the constitution limits the financial options for the states. Indirect taxation in the shape of sales taxes is ruled out for the states. They could make greater use of land taxes or re-introduce death duties, neither of which is particularly palatable or would raise sufficient funds.

The states can, however, once again levy income taxes. It would make a lot of sense for the states to regain the power to raise income taxes.

The Commonwealth raises far much more in taxation than it needs. Much of this money is then given to the states, in a form of churn. It would make much more sense if the states raised this money themselves.

It would also make much greater sense if the Commonwealth used the GST to fund its operations and left the states to raise their own income taxes. This would allow the Commonwealth government to get out of the many areas for which it was not given legislative responsibility, including education, universities and health. Such a move would encourage a smaller Commonwealth government.

At the same time a regular, non-regressive and adequate form of taxation would restore greater independence to the states. They would possess the capacity to behave in a responsible fashion and to take decisions in the best interests of their citizens. Moreover, it would encourage the states to use their finances more effectively.

Only by providing states with the capacity to raise the taxes they need to finance their operations can we restore them to their rightful place as responsible political actors within the Australian federal system. Only in this way can the republican principles inherent in federalism be restored and the slow, but inexorable, movement towards a 21st-century monarchy based on the CEO ideal not only be halted but reversed.

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*Renewing Federalism is in partnership with the Australian National University's Tax and Transfer Policy Institute at the Crawford School of Public Policy and with the University of Melbourne School of Government.*

*Our Renewing Federalism series will culminate in a symposium on October 2 at ANU. If you would like to attend the event, please RSVP to [tax.policy@anu.edu.au](mailto:tax.policy@anu.edu.au). The physical event will take place from 11am-1pm at the Molonglo Theatre, Crawford School of Public Policy, JG Crawford Building #132, 1 Lennox Crossing, ANU, Canberra. The event will also be live-streamed. There is no need to RSVP to the live-stream.*