

A federalist paradox:
Liberalism, conservatism and the Howard government

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The Howard government's approach to Commonwealth-State relations has been notably centralist. This represents an interesting divergence from what has commonly been understood to be the Liberal Party's strong support for the principles of federalism as embodied in the Australian federal system.

From the Party's inception, federalism has been considered a cornerstone of the Liberal ethos. The Australian federation arguably embodies the liberal and conservative values that the Liberal Party has considered itself to represent. For the most part, Liberal Party governments and leaders in the past tended to resist proposals to change to the constitutional structure that might weaken federalism and strengthen the capacity of the Commonwealth government.

However, the national Liberal Party's commitment to federalism has also at times been somewhat tentative and ambiguous. While the Party's philosophical principles have indeed produced pro-federalist platforms and vision statements, this has been tempered in practice by a number of constraints and countervailing trends. Of particular importance has been the effect of the Party's pursuit of national social policies and the degree to which social liberalism has informed its philosophy.

In the lead-up to Howard's 1996 election victory, the Liberal Party underwent a period of ideological renewal that saw the decline of social liberalism and the 'wets' within the Party. Then and subsequently, the Party has been reshaped under Howard's leadership to reflect much of his adherence to classical liberal economics and conservative social policies. Both of these philosophical positions would be expected to support a decentralised federal system.

This highlights the paradox of the Howard government's approach to Commonwealth-state relations: the shift within the Party further towards a philosophical position that should have consolidated its pro-federalist stance in practice has coincided with a shift further away from this stance in rhetoric and policy.

This paper will discuss two concurrent histories of the national Liberal Party's philosophy. The first narrative relates to the Liberal Party's 'middle-of-the-road' balance between classical and social liberalism. The second is the party's wavering commitment to Australia's constitutional federal system. Throughout the party's history, these two narratives have been almost inextricably linked, fluctuating almost in unison. This is because at the national level of governance classical liberals tend to favour decentralisation and social liberals have favoured centralisation. Simply stated, this is because classical liberals advocate limited government whereas social liberals prefer the state to have a larger role. Traditionally, the Liberal Party's rhetoric has favoured decentralisation. However, in practice this stance had been constricted, in part, by some of its social liberal policies. Accordingly, when Liberal governments have pursued a social liberal agenda, the role of the Commonwealth has tended to expand. The extent to which these differing liberal philosophies have informed and shaped Australian federalism has been quite clearly illustrated by the policies and rhetoric of the Liberal Party historically.

The Howard government's approach to Commonwealth-state relations represents a clear divergence between these two narratives. More so than any of his predecessors, Howard came to office with clearly classical liberal agenda, particularly on economic issues. In retrospect, one may have expected the Howard government to consolidate the Liberals' pro-federalist credentials in accordance with its classical liberal views.

However, to a large extent the opposite has occurred. The divergence between these two narratives would seem to suggest that federalism's decline goes well beyond the philosophical inclinations of the government. Instead it suggests a number of burdensome political constraints upon the prospects for the decentralisation of Australia's federal system; such as vertical fiscal imbalance, electoral indifference towards federalism and a lack of constitutional constraints over the Commonwealth's expansion. The Howard government not only represents a lost opportunity for the renewal of federalism, but is also a symptom of broader trends gradually corroding the prosperity of the Australian federal system. This paper will look at the history of the Liberal Party's changing attitudes towards federalism as a means to understanding the apparent paradox of the Howard government and federalism.

The Philosophy of the Liberal Party

Attempts to understand the Liberal Party's philosophy face a number of inherent difficulties. Two of the defining characteristics of the Liberal Party have been its diversity and pragmatism. Liberals have always claimed to be a loose affiliation of individuals rather than a particular group with any particular set of view (Brett 2003, 5-11). A common Liberal criticism of Labor is that it stood for particular groups, rather than for all Australians, as individuals and as a nation. As John Howard once stated, the Liberal Party is 'a party not beholden to, but standing above, sectional interests'(Howard 2001, vi). The purposefully vague constituency that the Liberals' have appealed to has inevitably meant they have needed to employ a wide range of philosophical approaches, depending on the particular issue and the mood of the electorate. As with most major political parties, but particularly so for the Liberals,

they have shied away from explicating a coherent political philosophy, favouring pragmatism over ‘ideology’. For Menzies, the broad church of Australian Liberalism is ‘pragmatic, and not dogmatic, in its approach’ (quoted in Starr 1980, 264). The preference for ‘practical’ politics reveals a continuing strain of conservatism to the Liberals’ thought. In this sense, it is not altogether surprising that there has been such a notable disjuncture between the Howard government’s philosophy and policy.

To the limited extent that the Liberal Party has stood for any particular principled philosophy, it has been drawn from quite a broad range of sources. Although this raises a number of difficulties in identifying a definitive philosophy for the Liberal Party, these issues are not insurmountable either. From the Party’s policy and rhetoric it is clear that the party’s philosophy has been largely informed by liberalism and conservatism. Not surprisingly, these are both broad traditions and there has invariably been some inconsistency within and between the Party’s rhetoric and policies. Even within these traditions of thought, the Liberals have often represented quite diverse and sometimes contradictory political positions. The Party’s balancing act between classical and social liberalism is a most pertinent example of this.

The party’s dual use of classical and social liberalism reflected Menzies’ belief that Australian Liberalism would ‘march down the middle of the road’.¹ The Liberal Party was able to avoid committing itself to any particular brand of liberalism by promoting ‘the end of ideology’ thesis (Bell 1962). Menzies employed this concept as a means to marginalize the social ideologies of Labor and to allow the Liberals to lay exclusive claim over liberal and conservative thought broadly. According to the thesis,

¹ Robert Menzies quoted in Graeme Starr, *The Liberal Party of Australia: A Documentary History* (Richmond: Heinemann Educational, 1980).

‘ideology’, defined as a ‘pattern of behaviour’ to be imposed upon a political society, such as socialism or communism, was no longer a relevant political notion in the post-war era. Conversely, liberalism was seen as a flexible ‘set of beliefs’ that merely stated a series of malleable norms grounded in practice rather than abstract theory (Brugger & Jaensch 1985, 41-2). Echoing this sentiment, John Howard has sought to lay exclusive claim over liberalism by describing the Australian Liberal Party as the ‘custodians’ of the liberal traditions in Australian society (Howard 2005 & Brett 2003, 2). This has allowed the Liberals to stake out a considerable stretch of the political ground, drawing from whichever brand of liberalism has been politically convenient. Although sometimes seen as a liability (Jaensch 1994), the Liberals have been able to turn their diversity and pragmatism into a political virtue, in the face of Labor’s homogeneity and idealism.

Federalism and the Liberal Party

From its inception, the Liberal Party has continued to advocate and defend Australia’s constitutional federal system. The basis for the Party’s stance has significant philosophical, political and historical roots. Philosophically, in its ideal form, federalism expresses many of the principal values of liberalism and conservatism, the most pertinent principle being limited government and the diffusion of power. The fragmentation of power and sovereignty geographically amongst the states and politically between the national and sub-national levels of governance creates limits to the power of each government (Galligan 1989, 6). Further, a federal system enables liberty by offering individuals greater choice and diversity between governments. Citizens can pursue their political preferences at multiple levels of government, either

at the national or state level, or between different states (Twomey & Withers 2007, 9-11). Different governments can therefore have the freedom to pursue varying policies to suit the particular needs of their constituencies. Federal systems allow the polity to engage in 'experimentation without overcommitment' (Elazar 1987, 102). Australia's concurrent model of federalism creates 'dual citizenship' through which people can have their varied interests served at different levels of government (Galligan 1995, 202). As Menzies put it, federalism 'protects a measure of individual freedom by not giving us one set of rules' (Menzies 1960). This preference for diversity under federalism follows the traditions of anti-majoritarian politics, such as pluralist, consociationalist or consensus democratic models. It avoided what Tocqueville called the 'tyranny of the majority' by establishing institutionalised means through which varying political interests could be pursued concurrently, both in cooperation and competition (noted in Galligan 1989, 55).

This notion of pluralist democracy stands apart from the majoritarian political traditions of the Labor Party and traditionally has lain at the root of the federalist divide between the major parties. At the core of the issue, lies a differing conception of the role of democratic government. Majoritarianism argues that if a clear majority can be formed, the majority has the right to govern as they see fit. To allow the minority to impose upon the right of government would be undemocratic, so long as the current majority does not stifle the ability of a new majority to form. Therefore, the majoritarian view favours unitarian government over federalism because it would consider sub-national governments to be minorities, an undemocratic obstruction upon the majority government. Naturally, the pluralist view would favour decentralisation because it better approximates the interests of the whole community,

including those of the minority opinion (Galligan 1995, 202-3). Federalism establishes constitutional measures that not only protect and enhance pluralism, but also create a degree of political stability amongst competing minorities. Although federalism is a geographical division, it also enables minority values or interests greater expression by creating smaller polities (Elazar 1987, 87, 99-100). Related to the majoritarian-pluralist dichotomy is the liberal-socialist divide on the role of government. Whereas liberals are sceptical of governments, as pluralists are of majorities, socialists have a much more positive conception of government. The majoritarian-pluralist dichotomy can be evidenced in the internal structures of the major parties. Like its non-Labor predecessors, the dispersion of power in the Liberal Party has been quite diffuse with strong state-based organisations (Brett 2003, 4). Comparatively, the Labor Party's structure is far more regimented and centralised, with considerable power residing at the national level. It can therefore be seen that there is notable correlation between majoritarianism, socialism and unitarianism and conversely between pluralism, liberalism and decentralisation. These correlations are reflected in the respective philosophies of the major parties.

Although the contemporary Labor Party would be more accurately described as social liberal, its historical connections to socialism have been influential, particularly on its attitude to federalism (Galligan 1995, 91-107). Regardless of Labor's shifts along the ideological spectrum, the party has been generally considered 'ideological', in contrast to the 'pragmatists' of the non-Labor parties. This has further polarised the major parties over the issue of federalism. The experimentation that naturally occurs in a federal system means that practice and experience have been far more compelling evidence of good policy in Australia, rather than abstract ideology (Walker 1999).

Also, while there are profound philosophical differences between socialism and social liberalism, both favour a larger government than classical liberalism. This has seen the continuation of Labor's centralist stance.

Despite this, arguments in favour of federalism and decentralisation can be applied to liberal thought generally, both classical and social. All liberals should favour the diversity and choice that federalism allows. Although, welfare and public goods are often the emphasised component of social liberal policy, this does not take away from the core liberal belief in individual liberty. Rawls insists that all rational people naturally seek to maximize their share in 'primary social goods', which include, amongst other things, the federal values of liberty and opportunities (Rawls [1971], 54). Furthermore, in terms of policy, social liberals can still pursue 'large government' agenda, such as public education and health, within a decentralised government. Although federalism diffuses the distribution of power this does not preclude smaller governments pursuing more expansive social policies within their smaller polity. However, what it does encourage is for governments to be more efficient and effective. The competitive nature of federalism means that different sub-national government departments are forced to compete with one another to attract residents and business. This creates greater incentives for innovation and reform, which ultimately provides better services (Twomey & Withers, 12-5). A more efficient public service frees up public funding to be spent elsewhere and ultimately means better outcomes for citizens. Although federalism 'limits' government, these limits do not preclude governments from pursuing social liberal ends.

Nonetheless, social liberals at the national level have tended to favour centralisation in Australia because it has been politically expedient. First, many of the policy areas that social liberals tend to emphasize, particularly public services, tend to lie outside the original constitutional powers of the Commonwealth.² This is because the founders of the Constitution sought to limit the Commonwealth's power to foreign and interstate affairs, such as immigration, defence, currency and infrastructure; the major exceptions being family law and pensions. Beyond these two exceptions however, at the national level, a party looking to advance a social liberal agenda can often find itself constrained by the Constitutional powers of the Commonwealth. Even beyond social liberal politics, the Commonwealth can often be drawn or tempted into policy debates beyond their constitutional jurisdiction, as can the states. As Tony Abbott notes, 'politicians are understandably keen to strike a chord with voters, even on matters which are none of their constitutional business' (Abbott 2003, 23) and once Canberra becomes involved in the public discourse it is 'almost inevitable that the Commonwealth's role will grow because it's much easier to pass responsibility to superiors than subordinates' (Abbott 2003, 23). The concurrent nature of Australian federalism, that Galligan outlines, can also lead to encroachment from both levels of government. Considering the financial superiority of the Commonwealth, this can often lead to further centralisation and the continual erosion of the federal system.

This point leads to the second reason for why social liberals have favoured centralisation: the financial and political dominance of the Commonwealth has made it more difficult for the states to fulfil their role in delivering social services. There is

² One might argue that this could explain why Labor, as a broadly social liberal or social democratic party, has been more successful electorally at the state level in comparison with its success at the federal level of governance. The irony being that Labor's centralist attitudes has often tried to override and undermine the power of the states, the level of government it has been most successful at controlling.

no philosophical inconsistency in a social liberal at the national level choosing to pursue a policy of decentralisation, so long as they feel that the states have the capacity to adequately pursue social liberal policy. However, this has often not been the case in Australia. The seemingly irreversible tide of centralisation that has gradually and consistently encroached upon the viability of the Australian federal system has had a cumulative effect of undermining the autonomy of the states. Without the financial assistance of the federal government, which too often has come with restrictive conditions, states have found it difficult to pursue extensive social policy. The centralization of income taxation powers has undermined the revenue-raising capabilities, and by extension, the political capabilities of state governments. This has left social liberals in a bind between being the constitutional distribution of power and the federal inequities of the taxation regime. Considering that the political issues that social liberals generally pursue remain beyond the constitutional powers of the financially dominant national government, social liberals have sought to expand the political breadth of the Commonwealth in order to fund their favoured policies.

Liberals ought to be 'sensitive' to centralisation because it undermines the balance of federalism and undoes the particularly liberal benefits of such a system (Kukathas 2001, 26-7). Although a centralised federation, or even a unitary state for that matter, is not necessarily illiberal, a decentralised federation certainly enhances the liberal character of the polity. In Thomas Jefferson's words, a 'beautiful equilibrium' (Jefferson [1798], 52) between the national and state governments, in which neither government gains primacy over the other, is necessary to ensure that each level of governance is independent, yet accountable. Federalism is a dynamic structure and therefore highly malleable (Galligan 1989, 2). As much as this is a beneficial trait, in

terms of accommodating changing political circumstance, it also means that the benefits of federalism can easily be lost. Conditional grants, for example, can often provide immediate short-term gain to solve an immediate political issue. However, by their very nature they gradually corrode the independence of sub-national governments (Jensen 2000, 259-60). Elazar notes that constitutional mechanisms are often crucial to the protection and maintenance of political structures against radical governmental restructuring (Elazar 1987, 100). However, in Australia's case they have been largely inadequate. Although the electorate has been typically conservative in supporting constitutional amendment in favour of the Commonwealth's expansion, the steady centralisation of federal power has been a defining characteristic of Australian politics since federation. It is important to note that this process has been largely incremental and has occurred across almost all areas of governance. Centralization in one area of governance often leads to the gradual corrosion of state powers elsewhere. The most obvious example being the centralisation of taxation powers, which allowed the Commonwealth government to efficiently mobilise finances to fund the Second World War. However, as has been demonstrated, this significantly undermined the federal system by allowing the Commonwealth to expand its role in through its financial dominance.

There are also a number of means through which centralisation has been possible. Despite the aforementioned benefits of concurrency, they are undermined by the Constitution allowing for the Commonwealth to prevail in instances of conflict. The High Court was given the power to determine the limits on determining conflicts and has generally favoured the Commonwealth in such disputes, arguably more so than the architects of the Constitution intended (Smart 1979, 294-5). This has created a

strong judicial precedent leading to the further expansion of the Commonwealth into all areas of concurrency. Also, states have been rather ambivalent in the defence of their rights, except when it relates to a particular political issue of importance. Centralisation allows states to absolve themselves of responsibility which in some cases proves to be a serious burden, considering their financial inferiority. Furthermore, the Senate has not been a defender of states' rights. The national character of the major political parties has meant that political parties have generally shied away from state-based issues. A rigid support for states' rights would seriously impinge on the Liberal Party's ability to maximize its influence at the federal level, where it has dominated government for much of the time since federation. On the other hand, regional units of political parties can at different times be tremendously effective in maintaining decentralisation (Sharman 1994, 26-8). Regardless, there remain significant structural reasons to explain Australian federalism's propensity for and vulnerability to centralization.

It is a common argument from centralisation advocates, or apologists, to argue that federalism is relatively unimportant, particularly in contrast with executive politics. To ignore federalism as the foundation of Australian politics is dangerous, because it affects all areas of governance, and as we have seen, it offers a tremendous number of benefits. Typifying the argument in favour of centralisation, in 2005 Tony Abbott argued:

It would be quite wrong for a successful democracy such as Australia to tamper with its fundamental constitutional order. It would be equally wrong for the Commonwealth Government not to use the

mechanisms provided for in the constitution such as agreements with the States and conditional grants under section 96 of the Constitution to secure the best possible outcomes for the Australian people (Abbott 2005, 4-5).

The first statement reflects the Liberals' conservative convictions and political style. Key to the Liberals' commitment to federalism is the conservative faith in constitutionalism and established political structures. Also, the supreme influences of liberal and conservative political figures upon the creation of the Constitution, and the unwillingness of Labor to partake in the federation process, is reflected in the values that it embodies, of which federalism is a significant part (Craven 2001, 53-64). Abbott's second statement tries to downplay the importance of federalism by arguing that outcomes are more important than governmental structure or organization. This is a misappropriation of the practical emphasis in Liberal politics. When the Commonwealth overrides federal impediments, the short-term outcomes of a particular issue may be favourable. Yet such an approach causes considerable long term damage to the sanctity of the federal system. The topic of federalism has been largely ignored or even regarded with a muted disdain, except in instances where federalism intersects with other political issues. The political disinterest in federalism has not only allowed those who favour centralization to gradually corrode the rights of states, but it has also meant that even the most keen advocates of Australian federalism have been reluctant to reverse the centralization process. The lack of political will to defend federalism combined with amenable political structures has gradually led to a situation in which centralization has become the norm. It is in this context that the Howard government has pursued an explicitly centralist approach to

Commonwealth-state relations. From this perspective, it is therefore not surprising that the Howard government has taken the stance it has. Although these broader political factors go a large way as to providing an explanation for the Howard government's federalist paradox, it hardly serves as a philosophical justification.

Menzies: Federalist and pragmatist

As the Liberal Party's most successful leader, Robert Menzies' political legacy left a profound impression on the Liberal Party. His government's approach to federalism is by no means an exception to this broader pattern. Menzies' own approach to Commonwealth-state relations demonstrates many of the issues that would affect future national Liberal leaders in their dealings with the states. The Menzies government struggled to come to grips with the numerous conflicting priorities which resulted in an awkward mix of federalist rhetoric and policy. Like many Liberals, Menzies was first and foremost a constitutionalist and by extension, also a federalist. He had an intimate knowledge and deep appreciation of the Australian federation that was grounded in his long career in politics and constitutional law (Sharman 1995, 137). Federalism was also one of the crucial principles that Menzies advocated during the formation of the Liberal Party and was reflected in their decentralised internal structure (Sharman 1994, 137). It appealed to a wide range of anti-Labor political organisations and assured a degree of autonomy to existing regional political organisations (Lloyd 1994, 127). This diffuse structure of the party in turn has been crucial in the Liberals' continued attachment to federalism.

Whilst Menzies was a federalist, it should also be noted that federalism was a ‘minor’ concern for his government (Sharman 1995, 137). It was largely in the twilight of his career and during his retirement that he became most vocal in his support of federalism, although this support was still qualified. In government, he was willing to put his own interest in federalism aside in the pursuit of more tangible political goals (Lloyd 1994, 124). This attitude was encapsulated in a statement made before the 1949 election, stating that ‘division of powers between Commonwealth and States, as distinct from *complete* centralisation of power at Canberra’ was conducive to both more ‘efficient’ government and the freedom of the citizen’ (Menzies quoted in Loveday 1979, 257). From this we can see that Menzies certainly favoured federalism, and recognised the inherent liberal value in its structure. However, he was also prepared to accept a degree of centralisation, perhaps even a great degree of centralisation, so long as it was not ‘complete’. As discussed earlier, the fallacy of such a position is that even incremental change can lead to the serious impediment of federalism. Indeed, Menzies himself noted that ‘[c]entripetal movements are not likely suddenly to halt themselves’ (Menzies 1960). Yet, this is exactly what Menzies allowed to happen under his government. Despite his broadly pro-federalist rhetoric, the Commonwealth government continued to expand under his government (Smart 1979, 294). Most significantly, Menzies’ enthusiasm for federalism did not translate into any significant policies that reaffirmed the Liberals’ commitment to federalism and failed to reverse many of the centralizing tendencies occurring within the Australian federation.

The Menzies government’s commitment to federalism, beyond the aforementioned political constraints, was largely tempered by its conservative political style and its

wavering interest in social liberal policies. One of the greatest oversights of the Menzies government's approach to federalism was its failure to reverse the expansion of the Commonwealth's taxation powers. A combination of Menzies' political caution and pessimism about the fate of Australia's federal system led him to avoid confronting the taxation issue. In 1952, Menzies faced protests from some of the states to return taxation powers and indeed he capitulated. However, he also realised that some of the smaller states would resist the notion and under section 99 of the Constitution, the Commonwealth is prevented from returning powers to some states, but not others (McMinn 1994, 265). This is another of the centralizing elements of the Australian Constitution. Instead of continuing to pursue this issue or trying to encourage the resistant states of the benefits of expanding the states' taxation base, Menzies began to publicly favour the Commonwealth's retention of its dominance of taxation powers. He claimed that the vertical fiscal imbalance was best 'dealt with periodically by debate among responsible leaders than that some genius should devise a once-and-for-all formula which would inevitably have disastrous results when the circumstances changed, as they always do' (Menzies quoted in Starr 1980, 266). Once again, the Liberals' preference for practical politics and caution meant the de facto abandonment of federalist principle almost altogether. Menzies saw little gain in going against the political current and restoring taxing powers to the states. Conservatives often have an aversion to major change, even if it is merely the reversal of radical change. However in this example, caution served to undermine the conservative principle of limited government.

Considering the centralised taxation structure of the post-war period, the pursuit of social liberal policy under Menzies further centralised the Australian federation.

Although it was Menzies' conviction that Australian Liberalism should be a 'socially-conscious faith' (Tiver 1979, 312), his government still managed to be fiscally conservative. During a period where Keynesian economics were dominant and there was a genuine faith in the ability of government to enhance the lives of its citizens, the Menzies government's spending on social services lagged behind other OECD countries (Gray 1995, 211). Nonetheless, the government's overhaul of the nation's education system in the early 1960s is a pertinent example of the Liberals' social liberal tendency encroaching upon federalism. Most significantly, these reforms were undertaken by then Education Minister, John Gorton, who later went on to pursue a staunchly centralist agenda as Prime Minister, as will be discussed later. As Opposition leader in 1945, Menzies first raised the possibility of the Commonwealth significantly expanding its role in the funding of public education. However, he later withdrew his support for such an initiative, well before the 1949 election in which he campaigned strongly against the socialist tendencies of the Labor government. Crucial to his campaign was increasing concern about the Chifley government's excessive use and expansive view of the Commonwealth's power (Smart 1979, 297).

In 1951 the Menzies government's foray in educational policy began tentatively with a number of conditional grants provided to states for university funding. Following this, in 1956 Menzies appointed a committee, led by British University Grants Committee chairman Sir Keith Murray, to form a report on the Australian tertiary education system. Murray's report recommended a tremendous growth of funding grants, scholarships, salaries and organisational infrastructure. However, even these significant investments proved insufficient in lieu of the continuing growth in demand for university placements (Starr 2001, 182). Beyond this however, Menzies did not

want to involve the Commonwealth in primary or secondary education, somewhat inconsistently arguing that education should remain the domain of the states. The government's successful involvement in the tertiary sector created the precedent and political momentum for the Commonwealth to provide desperately needed funds to the primary and secondary sectors, burdened with the population explosion of the baby boomer generation.

At the 1961 Premiers' Conference Menzies was presented with considerable pressure from all state governments. Although he managed to deflect the immediate demands of the premiers, Menzies would succumb to public pressure before the 1963 election (Smart 1979, 298-300). Although the need for funding was outstanding, it was provided as conditional grants, which in turn created a new set of difficulties. A considerable focus was placed upon the advancement of science education, particularly the construction of school laboratories and the purchase of scientific equipment, and also the development of technical and vocational educational institutions (Starr 2001, 183). However, there was scepticism amongst some of the states about the appropriateness of such measures, considering there were still considerable short-comings in other areas of the education system. The new national bureaucracy formed to implement these schemes was established without a coherent framework and lacked experienced education administrators. Furthermore, they lacked the intimate knowledge of the state education system. Gorton also fuelled tremendous discontent in the Tasmanian government over the formulation of funding division and his failure to acknowledge or take the Tasmanian Education Minister's alternative model into consideration (Smart 1979, 301-3). These kinds of deficiencies are typically raised by federalists in arguments against centralisation and clearly

demonstrate the problems caused by a national government trying to overcome much more serious issues by imposing itself upon the independence of the states. Again, it should be reiterated, that despite the states' holding serious reservations about the reforms, they capitulated because they lacked the financial and therefore political autonomy to do so.

The immediate popularity of Gorton's education reforms created a precedent for future governments to follow. Despite Menzies' own reservations towards the Commonwealth imposing itself upon state education systems, his government created a precedent in the post-war period for Commonwealth intervention. By pursuing a social liberal agenda through conditional grants, the Menzies government went a long way to undermining the precarious balance of Australian federalism. However, it must be acknowledged that throughout his tenure as Prime Minister, there were increasing calls for the Commonwealth to become involved in more extensive national policies. It is a tribute to Menzies' commitment to federalism, that however pragmatic he may have been, he most often resisted these calls.

The Post-Menzies Period: Federalism, centralism and their limits

By the late 1960s, there had been a growing sense that policy development had stagnated under Menzies (Hancock 2001, 196-7). The push for public education reform under Menzies was part of a broader political trend of new politics which had been appropriated by social liberals and progressives as the new issues that public policy needed to confront, such as health, housing and Aboriginal policy (Starr 2001, 192-4). Many, outside and within the Liberal Party, were 'impatient with the

constraints of federalism' (Brett 2003, 140) and sought to emulate the success of Gorton's education reforms and apply that model more broadly to other areas of concern. Whitlam, as the new leader of the Labor Party, was the most prominent figure demanding for major political reform. In the post-war boom, Australia had developed a significant university-educated middle class that proved the ideal constituency to support Labor's new social policies (Barns 2003, 10-1). As much as the Menzies government's conservatism had been a political virtue, its failure to address a whole range of new issues was to the detriment of his successors. Building further pressure upon the national government was the inability or unwillingness of the states to adequately fulfil these emerging needs (Tiver 1979, 323-4).

As Holt, Gorton and McMahon tried to grapple with the competing demands of the Liberals' attachment to federalism and the need for swift reform on a national scale many mistakes were made and ultimately contributed to Whitlam's success at the 1969 election and eventual ascension in 1972. Again, it is worth noting that the types of policies being advocated during this time could still be achieved through a decentralised federal system. However, the need for a swift response on these issues made it seem as though centralisation was the best avenue for political action. The short term of the Holt government seemed to follow the Menzies model for Commonwealth-state relations whilst also tentatively stepping into the social policy arena. The most significant initiative was his government's sponsorship of the 1967 referendum that enabled the Commonwealth powers to legislate on Aboriginal affairs (Hancock 2001, 204). Although this appears to be another example of centralisation, it seemed that Holt merely wanted to use this power to help co-ordinate the policies of the state governments.

Whilst Holt fit into the Menzies' mould, John Gorton, his successor, stood apart from Menzies and perhaps all other Liberal leaders. Following the refusal of the Country Party to endorse the Liberals' preferred candidate, William McMahon, Gorton made the move to the lower house through by-election and into the Prime Ministership. He clearly came to the role with an agenda for reform, bolstered by his considerable success in the education portfolio and unshackled by the cautious instincts of his peers (Hancock 2001, 205-7). In many ways, there was a tremendous affinity between Gorton's government and Whitlam's. Although on the opposite side of party politics, both advocated bold reforms and sought to achieve their objectives through centralisation. It was clear to Gorton that the Liberal Party had found itself in disarray in the post-Menzies era and under siege from a reinvigorated Labor Party. Therefore it was considered necessary to encounter Labor on its own political ground (Lloyd 1994, 131). Gorton effectively pursued centralist policies in Aboriginal affairs, resource development and education amongst others (Hancock 2002, 181-3 & Hancock 2001, 207). However, in trying to do so, he found himself undermined by the state based organisations within his own party.

The issue of taxation powers once again flared up amongst the state governments in the lead up to the 1968 Premiers Conference. This had been a familiar point of tension between the Commonwealth and the states, despite the non-Labor parties holding government in all states except Tasmania at the time. The states had begun to gradually increase their revenue collection, which had in particular irritated Treasurer McMahon because of his concerns over inflation (Reid 1971, 179). He was the boldest voice for taxation uniformity in the Cabinet and encouraged Gorton's

inclination for centralism (Hancock 2002, 187-8). At the Premiers Conference, Gorton boldly foreshadowed his centralist agenda by instructing the states to abandon their receipts tax and promising to veto any efforts to enter into income or payroll tax. Importantly, this was directed at and deeply angered the Liberal Premiers for New South Wales and Victoria, Sir Robert Askin and Sir Henry Bolte (Hancock 2001, 207), both long serving and powerful figures within the party. Both were crucial in creating the swell of internal party division that led to Gorton being passed over in the lead up to the 1972 election, after unsuccessful, but damaging challenges from McMahon and Minister for National Development, David Fairbairn (Reid 1971, 321-2, 368-77 & Jaensch 1994, 57). The independence of Liberal parliamentarians and the decentralised form of the Liberal Party's internal structure meant the state parties were able to restrain the centralisation push from the national leader. The lesson of Gorton was not lost on McMahon as Prime Minister, but it did not absolutely preclude his government from encroaching upon the preserve of the states either.

Fraser: The failure of New Federalism

The Fraser government came to power with the sincere intention of reinvigorating the Australian federal system, under the title of 'New Federalism'. Considering the voting public's relative disinterest in the topic of federalism, it was surprising to find a new government so adamant on the issue. For the most part, Fraser's commitment to federalism was a reaction to the excesses of Whitlam. Almost all of the major efforts of Whitlam to centralise had failed, but this still led to an impassioned response from Fraser (Jaensch 1994, 137). The adversarial nature of Australian executive politics and Whitlam's zealous belief in centralism sharpened the federalist resolve of the

Liberal Party, with the intention of undermining the radical social and economic policies of the Whitlam era. Fraser strongly favoured limited government and conservative spending (Ayres 1987, 305-310). Although his government was viewed dimly by some of the dries within the party (Kelly 1992, 39), he still significantly cut government spending and abolished a number of investment and trade barriers (Ayres 1987, 304-7 & Simms 1982, 109-12). Considering the impact of Whitlamism upon the political landscape, it is not surprising that Fraser would look to establish a more balanced equilibrium between the Commonwealth and the states. However, as with almost all Liberal leaders, the Fraser government was characterized by a significant degree of caution and pragmatism. These characteristics were inflated by the volatile political environment through which Fraser governed. The controversial circumstances in which Whitlam was removed and factional instability within the Liberal Party meant that Fraser's government was perhaps even more cautious and pragmatic than it usually would have been (Kelly 1992, 38).

The major thrust of Fraser's federalist reforms related to the redistribution of taxation powers to the states. The first important reform was the attempt to provide the states with a much sought after growth tax. New tax-sharing arrangements with fixed percentages of personal income tax to be distributed to the states were proposed. This led to a significant increase in payments to the states in the 1976-77 financial year (Ayres 1987, 323). However, the states would have no control over the tax rate to which the percentage was applied and at the same time, the Commonwealth was shifting its taxation focus away from personal taxation. Furthermore, there was no guarantee that the distributed percentage would be maintained either (McMinn 1994, 284). Secondly, there was a significant reduction in specific purpose grants, giving the

states more autonomy over policy and expenditure (Ayres 1987, 324). However, once again, this was only a temporary measure and relied upon the continued application of this principle by the government of the time. The most ambitious of Fraser's attempts at reforms was the effort to enable states to raise their own income taxes with the *Income Tax (Arrangements with the States) Bill 1977* (Peachment & Reid 1977, 35). This would have significantly restored the fiscal imbalance, but the states resisted taking on that responsibility fearing electoral backlash, as they had under Menzies before (Jaensch 1994, 137-8). These measures were perhaps the boldest attempt to re-establish the financial autonomy of the states. Yet the political momentum behind them dissipated quickly because of a lack of political consensus and Fraser's caution at the establishment of more substantial arrangements.

Furthermore, there remain a number of questions over Fraser's federalist credentials, much like those over Menzies. First, as Education Minister, Fraser had tended to intervene in the state government policy, particularly interfering on curriculum issues (Ayres 1987, 197). Second, as Prime Minister, there were a few issues that Fraser was unafraid to impose the Commonwealth upon, such as Aboriginal policy and multiculturalism (Ayres 1987, 234, 371-3). However, the most curious examples of Fraser's approach to federalism can be found in his differing approaches to conservation. In his first term of government, the Fraser government drew the ire of the Queensland government by withdrawing its permission for the export of minerals of Fraser Island. The project had already received significant private investment and the Bjelke-Petersen government was very interested in its continuance. Bjelke-Petersen ridiculed Fraser's federalist credentials accordingly (Peachment & Reid 1977, 39-40). Tasmania's Franklin Dam project, however, was dealt with in a

completely opposite manner, despite its close parallels with the Fraser Island example. Perhaps because the project was so popular within Tasmania, the Fraser government refused to employ its external affairs power to protect the World Heritage Listed environment that would have been affected by such a project. As Opposition Leader, Bob Hawke campaigned strongly on this issue and despite losing electoral support in Tasmania, it bolstered his national campaign (Richardson 2001, 218). These opposite approaches demonstrate a hefty degree of pragmatism, typical of the Liberals' approach.

The turmoil of the Hawke-Keating years

Up until this point in its history, the Liberal Party had largely avoided forming a coherent philosophical position. Indeed much of its success could be attributed to its propensity for pragmatism. It had been able to hold together its broad constituency of members both by its electoral success and by the party's ability to consolidate behind its leader (Barns 2003, 21, 83). However, without these two stabilizing factors, the Party is often liable to crumble into competing factions. The most significant period of instability within the Liberals, since its formation, occurred during its longest stint in opposition during the 1980s and early 90s that the Party was forced to truly consider its philosophical position (Jaensch 1994, 143-4). Out of this period of conflict, the Party emerged with a much clearer conception of its philosophical values. Although this analysis is simplistic, the Liberal Party during this time, and since, has been divided into two key ideological groups, the 'wets' and the 'dries' (Jaensch 1994, 163). The wets are so-called because they are considered flexible, loosely liberal and conservative, but are also pragmatically inclined to adopt social liberal or

progressive positions on some issues. Conversely, the dries are so-called because they favour a 'tough-minded position on economic position' (Jaensch 1994, 158) favouring the classical liberal principles of deregulation, privatisation and small government. In a sense, they are the true ideologues of the Liberal Party with clear policy positions. The dry faction evolved out of the Crossroads group, consisting of a small number of dissenting Liberal Party backbenchers who were frustrated with the Fraser government's failure to match his hard liberal economic rhetoric with policy (Barns 2003). This new political faction was crucial in the reformation of the Liberal Party's philosophy.

During the 1980s, Howard emerged as the informal leader of the dries faction. His successful claim to the leadership from his rival, Andrew Peacock, signalled a new direction for the party. The following period leading up to the 1996 election saw the dries eventually emerge victorious from the internal debates of the time. In spite of Howard's 1987 election loss, and the disastrous Joh-for-PM campaign, the dries had begun to dominate the formulation of party policy. Released in 1988, the major policy document *Future Directions* was very much the product of Howard and his close group of advisers and political allies (Barns 2003, 18-19). It outlined considerably radical economic reforms and created precedent for the Liberal Party policy over the next decade. Even when Howard lost the leadership again to Peacock before the 1990 campaign, Peacock went to the election with the *Economic Action Plan* which was essentially a compromised policy document and included many of the policies developed under Howard (Lloyd 1994, 130). Following that unsuccessful campaign, the Liberals gambled their leadership on political newcomer John Hewson. His rapid rise to the leadership in only his second term in parliament represented an important

victory for the dries, as Hewson was a true dry economic liberal. He was given a tremendous degree of control in the development of policy, exceeding that of any previous Liberal leader (Lloyd 1994, 130). The complicit support from the wets was crucial to the Party's stability and their electoral chances. The cornerstone of the Hewson campaign was *Fightback!*, a wide-ranging document that dealt extensively with economic and taxation reform. Most interestingly, it also addressed federalism under the title 'Building a Better Federation' (Liberal Party 1991, 63-4). The document clearly outlined a classical liberal, pro-federalist argument in favour of decentralization, the reversal of tied grants and a permanent financial distributive arrangement (Sharman 1994, 63). This at least suggests that there is a correlation between the ascent of classical liberal economic theory within the Liberal Party and the party's interest in federalism. Considering that Howard was one of Hewson's keenest supporters, one would have assumed that his government would have adopted his federalist policies – but this has not been the case.

There are a number of possible reasons for the Howard government's centralist stance. Fortunately, Howard and some of his colleagues have been relatively open in their explanation of his government's approach. The first element to their argument has been that political outcomes are more important than political structures, or as framed earlier, executive politics has primacy over federal politics. The argument continues that although liberals can appreciate the benefits of federalism, they are only potential benefits. Former Senator Santo Santoro argued that discussion over federalism should go beyond debates over 'states rights'. Instead policy debate should be held 'within the prism of citizens' rights' (Santoro 2005, 8). Howard reiterated this sentiment by saying 'the goal is to free the individual, not to trample on the states'

(Howard 2005). Although Howard is a true social conservative, his political style is far more radical and action-oriented than that of say Fraser or Menzies. His government has a considerable legacy of significant reform throughout his term. This tendency for bold political action has perhaps in part led to the Howard government looking to overcome the impediment of federalism. But as aforementioned this view is short-sighted, as it ignores the dangerous precedent that centralisation can set. A centralised system can be appropriated by future governments to pursue illiberal policies and as Australian federal history has shown, it has been difficult to reverse. It underestimates the fundamental importance of federalism to the broadly liberal character of the Australian political system.

Another crucial element to Howard's centralism is his particularly national outlook, his belief in the primacy of the national interest and the Commonwealth government as the political expression of that nationalism. Howard has clearly stated in the past that he is 'first and last, an Australian nationalist' (Howard 2005) who has 'never felt any personal identification with the state' (Howard quoted in Metherell 2005). This perspective has roots within the Liberal Party dating back to Menzies, who worried that state parochialism was too often 'an impediment to the creation of a truly national sentiment and pride' (Menzies 1960). However, without engaging a debate in regards to Australian political identity, it would be fair to say that there still remains a number of notable differences between the political character and interests of the states. Also, it has been seen that voters can have different preferences between levels of governance, evidenced by the Coalition controlling the Commonwealth for over a decade, yet Labor currently dominating all the state and territory governments. This point also suggests another possible reason for the Howard government's centralism:

the partisan opposition of the state governments. It is perhaps possible that Howard has sought to overcome the obstacle of Labor state governments by simply centralizing power. However, the Labor dominance of the states is only a relatively recent emergence. Furthermore, historically there has been no outstanding correlation between intergovernmental co-operation and partisanship (Sharman 1994, 31-42). Although these reasons are only part of the explanation for the Howard government's federalist paradox, it is clear that the answer lies in the government's political style and circumstance, rather than philosophy.

Conclusion

The Howard government's approach to federalism has not been particularly remarkable in the sense that it has ignored the Liberals supposed commitment to federalism, because this has precedent in the party's history. What is remarkable, however, is that it has come at a time when the Party has shifted closer to a philosophical position that would seem to support decentralisation. The paradox of the Howard government's approach to federalism has been its explicit advocacy for both classical liberalism and also the expansion of the Commonwealth's powers. From this perspective, two conclusions could be deduced from the paradox. The first is that the Howard government has continued the established Liberal tradition of pragmatism in abandoning its federalist principles for the prospect of achieving immediate political outcomes and electoral success. The second is that the Australian federal system has been so irrevocably undermined by over a century of growing centralisation that its renewal seems a futile exercise. For all of the arguments in favour of federalism, even the Howard government has had little interest in federalism and has even gone so far

as to explicitly argue for further centralisation. Both of these conclusions depict a bleak outlook for the future of Australian federalism.

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