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Federal Reform Strategies

An Introduction

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Consider the choices facing a reforming government, one which wants its nation to make a transition from a centrally planned or regulated and closed economy to a market-based, open one, integrated with the world economy. The government concerned is that of a large country, a country which is organized as a federation.

The initial reform choices that the national government is likely to face concern the exchange rate, trade policies, and industrial licensing. These are stroke-of-the-pen reforms (devalue the exchange rate, reduce tariffs and quotas, relax and ultimately disband licensing) which can often be initiated quickly and which clearly lie within the competence of the central government to decide and where resistance from sub-national governments is likely to be minimal as the regional impact of such reforms is not easy to identify. A next set of reform choices might relate to the financial sector, the fiscal balance, and the independence of the central bank. These might take longer to achieve, for a combination of reasons that have to do with risk and institutions, but like the first set of reforms, they are still predominantly within the domain of the central government to implement.

However, an agenda of integration and deregulation typically cannot be completed without the active participation of sub-national governments. The creation of a competitive market requires reforms in policy areas such as infrastructure, competition policy, and regulation, all of which are likely to lie, at least in part, not in its domain, but instead in the domain of the country's next tier of government, at the sub-national the

level.[1] Coordination in the calibration of stabilization and redistribution policies and reforms is also important. And support of sub-national governments for reforms in these areas cannot be assumed. The political calculus of reforms may be quite different at the state and national levels.

What should our reform-minded central government then do? There is little in literature to guide it. Most of the literature about federalism and reforms is about the reform *of* federalism, and focuses on intergovernmental finance. This might indeed be something the central government should consider. A better structured federation, one which made sub-national governments more accountable for their behaviour, would be more likely to produce better policies. But few central governments are that patient or that hands-off to only pursue reforms of the federal system. And sometimes the reforms to the federal structure that are recommended are extremely difficult to implement. They are often constitutional in nature, and can pit one level of government against another, with clear winners and losers. Reducing overlapping responsibilities, one common federal reform prescription, would require one tier of government to vacate entire areas of economic activity. Reducing vertical imbalances, another common cry, would require the central government to transfer large slabs of revenue capacity to its sub-national governments. There are both extremely difficult reforms, rarely attempted.

What central governments in such a position in fact do is try a variety of more direct means to implement national reform agendas.

This volume is about these federal reform strategies, that is, ways in which central governments can influence sub-national reform policies. It covers such mechanisms as the imposition of conditions on earmarked funding from central to sub-national governments, the provision of incentive funding being awarded (or loan write-offs) if certain reforms are undertaken, the development of cross-government agreements, and the centralization of power from the sub-national to the central government. It a nutshell, it is about reform ***through*** federalism, rather than reform *of* federalism.

The reform focus of the volume is primarily on integration and market-orientated reforms of the type mentioned in the opening paragraph. However, we are also interested in resource management reforms because

[1] Hansen and Perloff (1944) have pointed out the tendency of the state/provincial governments to follow pro-cyclical policies during the period of the Great Depression and called this tendency a 'fiscal perversity'.

of their growing importance and their typically federal nature. Thus we also consider an analysis of water management problems in Australia and India and review decentralization and forest management in Indonesia.

This introductory chapter provides an overview. The next section explores the rationale and types of federal reform strategies further. The following two sections draw on the case studies of Australia and India presented later in the volume. ~~The two~~ countries have made ~~most~~ extensive use of incentivising stimulating subnational policy reforms and ~~the~~ experiences ~~of these countries~~ provide useful lessons on incentivising subnational reforms. Both their

The following section covers China and Indonesia, which are the other two countries included in the research project. The final section attempts to pull together some lessons learnt.

FEDERAL REFORM STRATEGIES

To make a distinction between reform of federalism and reform through federalism, consider, as an example of the former, Barry Weingast's (1995) theory of market-preserving federalism. We use this not because we wish to endorse it in its entirety, but rather because it has obvious appeal, and as an example.[2] Weingast lists five preconditions which need to be met for market-preserving federalism to hold, and argues that if these conditions do hold, federalism will be supportive of good economic policy and performance.

The five conditions are:

- A hierarchy of governments exists with a delineated scope of authority, so that each government is autonomous in its own sphere of activity.
- The sub-national governments have primary authority over the economy within their jurisdictions.
- The ~~That~~ national government has the authority to police the common market.

[2] We could also have used Albert Bretton's (1996) and Pierre Salmon's (2006) arguments concerning the benefits of horizontal or 'yardstick' competition, which make the case for sub-national governments being given the freedom to innovate and experiment. Such a position likewise leads to a set of federal reforms which, it is argued, will maximize the scope for welfare-improving horizontal competition (such as reducing ~~the~~ vertical imbalance, and earmarking).

- All governments face hard budget constraints.
- The allocation of authority and responsibility has an institutionalized degree of durability.

Weingast argues that if these conditions hold then governments will have their power constrained and they will be forced to follow market friendly policies. For example, if they adopt bad policies, capital will flee to another jurisdiction. And constraining powerful governments is a *sine qua non* for successful development. Hence the argument that market preserving federalism is both necessary and sufficient for successful development.

We can easily understand the importance of all these features and their attractiveness from a reform and growth perspective. Weingast particularly emphasizes China in his account and its adoption of market-preserving federalism as a precondition for its growth spurt (see also Montinola et al. 1996). Thus he argues that the 'loss of political control over local economic policy-making' (Weingast 1995: 22) led to a situation in China in which 'the incentives of local political officials changed dramatically. With the growing success of economic reform, local revenues came to depend on the economic health of the local economy.' (ibid) In this way, 'decentralization in China provided many local political officials with the incentives to create an economic and political environment that fosters economic growth' (ibid)

The policy implications are clear. Central governments concerned with promoting integration or market-oriented reforms should promote central reforms within their own domain and work towards the adoption or strengthening of market-preserving federalism. This will then create the incentives for sub-national governments to adopt the right pro-market and pro-growth reforms.

As attractive as this is as an explanation of why some countries succeed, we can also note various limitations of this approach at least as the basis of a set of policy prescriptions for reform-minded central governments.

First, some federations clearly fall short on some of the dimensions spelt out by Weingast. In India, for example, it is often said that state governments face soft budget constraints. In Australia, it is far from the case that different tiers of government have clearly delineated areas of authority. To the contrary, as Painter (1998: 6) writes 'The essential character of the division of functions in the Australian constitution is concurrence, that is, most functions are shared rather than exclusive.' It certainly cannot be said of either Australia or India that, as market-preserving federalism requires: 'The central government's authority to make economic policy must be limited; this authority must be in the hands of the lower political units' (Weingast 1995: 5). query

Reforms can of course be undertaken to move federations towards a more market-preserving form. And central governments do make such efforts. In most federations, sub-national governments adopt some form of protectionist policies to a lesser or greater degree. Both India and Australia are undertaking reforms to increase the mobility of goods and factors across sub-national borders. And both have moved over time to harden the budget constraints which their sub-national governments face. However, there are limits on what can be done. Weingast interprets the need for a hard budget constraint in a broad sense, stressing how 'revenue sharing and equalization among governments, especially through soft grants' undermines market-preserving federalism (Weingast et al. 2005).

But revenue sharing and equalization, based on grants, ~~is an~~ are essential characteristics of most federations including both Australia and India. ~~It~~ This will not change. Nor is it realistic to think that either country will move to a more delineated system in which distinctions in relation to areas of authority are more clearly made. As Painter (1998: 6) writes of Australia: '...governments being what they are, there is little likelihood that they will not seek at least to reach, and probably to extend, the limits of their jurisdictions. Invasion and overlap are the norm and voluntary vacancy is the exception. Hence increasing entanglement is, it seems, unavoidable. Indeed, this is part of Australia's history." single inverted comma

The first point then is that the road to market-preserving federalism is a difficult one, which few can follow to the end.

The second is that it is not at all clear that moving to market-preserving federalism should be the policy focus for reforming governments. Australia has overall done reasonably well as a national economy and as a policy reformer despite the fact that, as shown earlier, it falls short in various regards relative to the market-preserving benchmark. Weingast specifically singles out India as an example of a country which suffers from a lack of market-preserving federalism (Parikh and Weingast 1997), but its recent economic success suggests this might be an over-simplistic or at least an out-dated characterization. Moreover, it is far from clear that a lack of market-preserving federalism is the binding or underlying constraint to India's success.

This is particularly evident when resource management reforms are considered. It is tempting to argue that all that is needed for efficient management of inter-state rivers, for example, is a clear allocation of property rights across states. However, as Nirvikar Singh, in his chapter notes
on water management in India ~~notes~~, this is an over-simplification. ~~For one thing,~~ The ~~initial~~ allocation of water rights is a zero sum game, and thus inherently a conflictual matter into which central governments are invariably drawn.

In summary, the market-preserving reform agenda for federalism is a very demanding one, and not self-evidently the most important one. Not surprisingly then, countries such as India and Australia take quite a different, and a much more diversified, approach or route to inducing sub-national reforms.

What are the *federal reform strategies* available to a central government (or for that matter to a state government desirous of national reforms)? One can identify at least five separate, albeit overlapping, types.

One is cooperative federalism. Cooperative federalism is often defined loosely to mean reform efforts in which state and central governments cooperate. The formal definition provided by Inman and Rubenfeld (1997: 48) is: 'The principle of cooperative federalism is to prefer the most decentralized structure of government capable of internalizing all economic externalities, subject to the constitutional constraint that all central government policies are agreed to unanimously by the elected representatives from each of the lower-tier governments.'

Since most inter-governmental agreements are forged by consensus, the formal and informal definitions in fact largely coincide, at least in relation to policies which lie outside the exclusive domain of the central government.

Certainly cooperative federalism would seem to describe many of the national reform efforts undertaken in both Australia and India. For example, both countries have undertaken (in the case of Australia) or are undertaking (in that of India) large national tax reform efforts which require agreements between the centre and the states.

Indeed, particularly in Australia, where its smaller size and greater homogeneity reduces the costs of cooperative approaches, they have become something of a norm. As Painter (1998: 6) writes: 'While the initial response to new problems and issues is to call for a Commonwealth [central government] initiative, a common outcome is an intergovernmental arrangement of some kind, because the states often possess both the jurisdictional competence and the administrative capabilities.'

However, the cooperative path is by no means the only one that a central government seeking sub-national cooperation can take. As Inman and Rubenfeld (1997) note, seeking unanimous agreement from all sub-national governments may be exhausting and in fact impossible. Unanimity may result in weak reforms. Cooperative federalism can lead to a very weak centre, since the veto power given to the states can end up as paralysing.

Another path that central governments can take to induce reforms in a federation is the conditional one. Both Australia and, more extensively, India, have attached incentives to reforms through the provision of conditional grants. Another way in which the central governments can induce reforms in a federation is through conditional grants. But, even if there is an agreement, incentives may be needed to implement the agreement, or perhaps even to get the sub-national governments to the drawing board in the first place.

This sort of federalism is referred to by Anderson (2008) as conditional federalism. There is limited literature on conditional federalism, and indeed none from a comparative perspective. Filling that gap is one of the chief objectives of this volume.

There is much larger literature in the field of foreign aid on the influence (or lack thereof) of conditions attached to grants provided by external donors. This is often discouraging literature, with a fairly jaundiced view of the ability of external donors to 'buy reforms'. Whether national governments are better or worse positioned to influence policies at a lower level of government can be debated. On the one hand, they may have more legitimacy. On the other, as Daniel Connell points out in his chapter in this volume, the same political forces resisting reforms at the state level are also likely to be represented at the national one.

This sort of conditional federalism is to be distinguished from what Parkin and Anderson (2007) call programme federalism. This is something that many central governments practice of providing hypothecated or earmarked grants. The conditions pertain typically not only to the sectors in which the funds are required to be spent, but also, often, to the manner in which they are to be spent. Such arrangements can give central governments great influence. As Parkin and Anderson (2007: 304) write of Australia:

> Commonwealth conditional grants to the States, under the authority of Section 96 of the Constitution, have always had potentially important policy and program ramifications. Through these conditional grants, the Commonwealth has a backdoor mechanism for policy and program intervention in areas that are otherwise under State jurisdiction. The increasing proportion of Commonwealth funding that has been tied to specified conditions is a feature of the past half century. The shift was most pronounced during the tenure of the Whitlam Labor government of 1972–75, but all Commonwealth governments on both sides of the party divide have presided over this phenomenon.

Since the provision of tied grants influences behaviour, changes in the conditions or nature of such grants can be an important way to change state behaviour. Thus programme federalism is our third federal reform strategy.

As noted earlier, programme federalism is a widespread practice, used in many federations. For example, the Clinton welfare reforms in the US moved from central welfare funding to the states from a matching formula to a capped funding approach. It is certainly a mechanism that both the Indian and Australian governments have used. For example, as Howes and Engele discuss in their chapter in this volume, recent reform discussions in Australia have proposed an important change in the way funding is provided to the health sector by both federal and state governments. Sometimes the line between programme and conditional federalism can be blurred. For example, Govinda Rao and Tapas Sen in their chapter in this volume note that the Indian government provided additional funds to states for irrigation and power, provided that they implemented various irrigation and power sector reforms.

A fourth and final route through which central governments might try to influence sub-national reforms is through centralizing power, which Parkin and Anderson label 'parallel federalism', but which we call simply centralizing federalism. In this route, central governments intervene directly to change policies which hitherto had been considered the domain of sub-national governments. This can happen both through

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spending and policy decisions. In spending, unless an area is exclusively ruled to be the domain of one or the other level of government, there is nothing to stop the other government getting involved, and it may move over time from a position of voluntary disengagement to active engagement. With regard to policy decisions, governments may, even without changing the rules of the game through constitutional reforms, find and use levers by which they can expand their power over time.

Both methods can be observed in practice. For example, as Daniel Connell describes in his chapter in this volume, in Australia the central government has started intervening in the major Murray-Darling river basin by the introduction of water buybacks, which gives it a direct influence above and beyond anything which might be arrived at through a cooperative approach, such as an agreed river basin plan. Another Australian example is the move of the central government in recent years to bring industrial relations under national control even though, under the constitution and in practice, this was a matter in which both national and state governments were active. The central government's rationale was in terms of the powers provided to it under the constitution to regulate corporations. The states challenged this move of the central government, but the High Court upheld it.

Centralizing decisions can be of two sorts. Under one modality, a central government may take over functions previously performed by sub-national governments. Industrial reforms in Australia fall under this category. Under another, the central government might enter the area, without the state-government exiting, resulting in vertical competition. As Pincus (2006) notes, this has recently happened in Australia with respect to technical colleges. Prior to a 2006 central government initiative, all technical colleges were ~~provided by~~ Australia states, but the central government is also now a provider of technical education. Similarly in India, although health is a function in the state list, Entry 52 in the union list allows the central government to create 'institutions of national importance' and a number of national level hospitals have been created by it.

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Fifth, and finally, the central government can encourage and support (horizontal) competitive federalism, under which state governments are encouraged to innovate, and successful cases are then scaled up by the central government (Breton 1996; Salmon 2006). To encourage competitive federalism, the central government might promote the sort of market-preserving federalism reforms advocated by Weingast. But they might also go beyond this to take on an active role in making information on the outcomes achieved by different sub-national governments available and comparable (for example, school attendance rates and school test outcomes).

To summarize, what we are interested in, in this volume, is the practice of cooperative federalism, conditional federalism, programme federalism, centralizing federalism, and competitive federalism. These are all federal reform strategies, that is, they are all ways in which the central government can attempt to influence ~~positive~~ reform outcomes in areas where it does not have (or at least has not enjoyed) exclusive jurisdiction to act.

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To clarify, while there is clearly an overlap with literature on the reform *of* federalism, the focus of this project is on reform *through* federalism.

The various federal reform strategies described above have all, to varying extents, been analysed separately, but there is no volume which brings them together to make comparisons as reform strategies either to each other or across countries.

A useful starting point for our research is Wallack and Srinivasan's (2006) *Federalism and Economic Reform: International Perspectives*. This collected volume has a broad canvas both in terms of the number and the geographical spread of the countries covered, and in terms of topics. Its thematic areas of interest include the reform of federalism, the impact of reforms on federalism, as well as some of those direct routes to reforms which are the central focus in this volume. Wallack and Srinivasan (2006: 476) in their concluding chapter to their book note that some 'governments attempt to use grants to affect state's incentives, but these are either ineffective or create further distortions'. They are more positive about 'forums for central-regional "diplomacy"' as 'the most effective way to reach agreement' on reforms (Ibid., 489). These are useful starting points for our analysis, but, as we will see, in fact the cases we study do not support either of these generalizations. Sometimes, incentive-based grants are useful in changing incentives and pushing through reforms. And, while there are certainly cases of success, we can also see in this volume ~~the~~ cases of centre-state fora and agreements which ~~do~~ not ~~lead~~ to successful outcomes.

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Clearly, a more detailed examination is needed, and we hope our more focussed research effort will complement the broader comparative study undertaken by Wallack and Srinivasan.

We now turn to the two countries which are at the centre of this research project.

THE AUSTRALIAN EXPERIENCE

As mentioned earlier, Australia is clearly a country which deviates from the norms of market-preserving federalism in several key regards. It has one of the highest levels of vertical fiscal imbalance of all federations, there is a high level of concurrence of spending power, and there is a gradual centralizing tendency evident over time.

The opening of the Australian economy began in the early 1980s. As Madden (2006: 113, 111) writes:

> The period from 1983 to 1988 was concerned mainly with external and financial market reforms. The Australian dollar was floated in 1983, financial markets were deregulated between 1984 and 1986, and a program of trade liberalization commenced in 1988...
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> Having put in place reforms to make Australia more open to external competition ... the federal government began to turn its attention to internal barriers to trade.

In 1987, for example, the two-airline policy was discontinued and the aviation market deregulated. However, many of the reforms which required attention when considering internal barriers to trade came under the domain of state governments. Fortuitously, state governments, many of whom were fiscally stressed, began to turn to reforms as well.

Broad reform areas were agreed on by the state and central governments at a 1990 Special Premiers' Conference. Early areas for reforms included an agreement on mutual recognition of state regulations on goods and occupations, and early moves to an electricity market (Madden 2006: 113). In 1992, it was agreed that the Council of Australian Governments would be established at which federal and state leaders could meet. The Commonwealth established an independent review of the national competition policy in 1992. The Hilmer review, as it was called, considered a centralizing approach to reforms but ultimately adopted a collaborative approach (Madden 2006: 115):

> The Committee [responsible for the Hilmer Review] felt that the Commonwealth could largely implement the reforms unilaterally if need be and, in any event, its preferred implementation method was by the states referring some of its powers to the Commonwealth. However, it was not certain that the unilateral approach was constitutional. The type of collaborative approach eventually adopted was probably the most politically feasible.

The National Competition Policy (NCP) reforms were agreed to at a Council of Australian Governments (COAG) meeting in April 1995. The agreement involved a commitment by the Commonwealth and state governments to carry out a 'comprehensive program of reforms over a number of years in their particular jurisdiction... [I]t was agreed that there would be a series of competition policy payments to the states conditional on the states meeting the timetable for reform.' The Commonwealth government also committed to keeping real per capita payments of their annual general purpose grants constant (Madden 2006: 116).

A National Competition Council was established to monitor and advise NCP on implementation, including advice on competition payments. Overall, payments were made, though with delay.

on NCP

The NCP has been described as 'the most comprehensive program of economic reform in the country's history' (Samuel 1999, quoted by Madden 2006: 116).

In his chapter in this volume, Paul Gretton describes the major achievements of the NCP. It extended coverage of the competition law to (central and state) government businesses and unincorporated entities. It reformed public monopolies, separating commercial and regulatory functions, provided oversight of monopoly services (electricity and communications) by independent authorities, and provided third-party access to infrastructure (railways and pipelines). It also initiated a systematic review of all anti-competitive regulations. This covered 1,800 items, which ranged from agricultural marketing arrangements to opening hours, and progress towards liberalization was made in relation to most of them.

Gretton lists four ingredients which he argues explain the success of the NCP. The first is wide recognition of the need for national reforms. The second is the presumption in favour of competition as the solution. The third is COAG's agreement on the reform agenda. And the fourth is effective implementation mechanisms, combining common principles, independent oversight and monitoring, and financial incentives, namely payments to the states.

While Gretton's chapter focuses mainly on ~~the~~ NCP, the companion chapter by Howes and Engele has a complementary focus on the post-NCP era. The successor agreement to ~~the~~ NCP was the National Reform Agenda (NRA). NRA had three streams: competition, regulatory reforms, and improvements to human capital. The competition and regulatory streams carried on the NCP reforms ~~of the NCP~~. The human capital stream was new, and covered potentially wide-ranging reforms in health, education, and workforce participation.

Like NCP, NRA was put in place towards the end of the tenure of a central government, this time the Liberal Howard government. Unlike NCP, however, which was put together by the outgoing Keating Labour government but largely overseen by the Howard government, NRA did not survive the change of government. Instead, the new Rudd Labour government initiated a new COAG Reform Agenda (CRA).

~~The~~ CRA is similar to, but even more far reaching than the NRA agenda. It is commonly described as having three streams. The first groups together competition and regulatory reforms. The second is a human capital stream. The third is an environment stream, with a focus on water and climate change. An important part of the CRA ~~is a~~ concerns the way in which earmarked funds are provided by the central government to the state government. Reforms in this area aim to reduce the number of earmarked funds, and to shift to outcomes rather than inputs as a basis for payment.

The CRA is in many ways modelled on the NCP approach. Instead of a National Competition Council, there is a COAG Reform Council to monitor progress. And, like NCP, there is a provision for incentive payments to be made provided that agreed reforms are carried out.

As Howes and Engele note, it is much harder to provide a definitive evaluation of either the NRA or the COAG Reform Agenda. This is not only because these are newer initiatives. They are also more dispersed and ~~more~~ fluid.

However, at least in some areas, it is unlikely that NRA/CRA will be the runaway success that ~~the~~ NCP was. The main reason which Howes and Engele identify for this is that, unlike NCP, there is a lack of underlying consensus on solutions in key areas now being tackled. Everyone agrees that health reforms are needed, and that states should have more flexibility in how they use the revenue allocated to them by the central government. But there is much less agreement on what sort of health reforms are needed, or just how much flexibility the states should have.

While it is tempting to contrast the assured success of NCP to the more tentative progress of the post-NCP era, it is also important to note the persistence of effort since the 1990s, and the institutional achievements. The embodiment of this is COAG, whose membership consists of the Commonwealth Prime Minister and the state premiers (and territory chief ministers). COAG was created in 1992, and has been active ever since, for almost 20 years now. Its success is actually best described in the chapter on environmental reforms by Daniel Connell:

> COAG is the most recent iteration of a series of institutional processes that have been created since federation to coordinate the two levels of government in the Australian federal system... After more than a century of struggle between the states and federal governments–during which the latter has grown more powerful yet the former have continued to find effective ways to frustrate federal intentions–COAG has become the policy sphere within which many areas of joint constitutional responsibility are coordinated.

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COAG has not only been the forum within which NCP, NRA, and CRA have been negotiated. A range of other important reform initiatives have been negotiated through it, from the introduction of a value-added tax (GST), to the tightening of gun laws, to the reform of water management, the topic of Daniel Connell's chapter.

Connell's chapter is about the Murray-Darling River Basin (MDB), Australia's most important river system. His introduction sets out the importance of MDB for Australia, the importance of irrigators in the basin as pre-eminent waters users, and the complexity of the government's management of the basin:

> There are six governments with responsibilities in the MDB. The National Commonwealth Government, the four states with territory in the catchment, New South Wales, Queensland, Victoria and South Australia, and the Australian Capital Territory that contains its largest urban centre. Together they administer just over a million square kilometres in size, has a diverse range of landscapes, ecosystems, land uses, and climates, and include over 30,000 wetlands, eleven of which are listed under the Ramsar Convention

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> of Wetlands of International Importance. Divided between the southern and eastern Australian states of New South Wales, Victoria, South Australia and Queensland and the Australian Capital Territory—each with their different systems of water entitlements and management—the MDB is home to just under two million people and supplies much of the water used by another million in South Australia. Those three million people and various industrial activities use about 4 per cent of the water diverted from the region's rivers. The other 96 per cent is used by irrigated agriculture and supports nearly three quarters of that activity nation-wide. From all sources the MDB produces approximately 40 per cent of Australia's gross value of agriculture.

To simplify, the key reform challenge is to reduce the amount of water used by irrigators and increase the amount reserved for environmental purposes. The reform area might be different, but the underlying challenge is the same as in economic areas: how can national governments achieve major public policy objectives which require the cooperation of their state governments?

Connell's starting point for analysis is the MDB reform programme that was first approved in 1994 by COAG. Connell sees COAG's proposed water reforms as linked to the National Competition Policy, discussed earlier, and the focus of Gretton's chapter in this volume:

> To be properly understood the federal government's MDB water reform programme needs to be viewed in the wider context of National Competition Policy, arguably COAG's primary concern. It is part of the nation-building enterprise that began well before the federation in 1901 and is not merely an attempt to solve Australia's contentious water management problems. The aim is to meld the semi-autonomous states into a more unified national economy and society (Painter 1998). In the sphere of water policy the intention is to promote this process by strengthening management, encouraging water trading, and reducing the significance of state borders.

However, water reforms have not been the great success which the NCP appears to have been in other areas. On the contrary, it was the failure of the states to deliver on the agreed COAG programme which led to the central government introducing (with reluctant state cooperation) the Water Act of 2007. This Act had several key features. One is the creation of the Murray-Darling Basin Authority (MDBA) that is charged with developing and implementing a basin plan. A second is the provision, for the first time, of legal backing to the plan, through its envisaged endorsement by the Commonwealth legislature.

Although the Water Act certainly increased central powers in relation to MDB, Connell is sceptical whether it will deliver. He observes that 'the proposed policy and institutional changes being introduced by the federal government are being widely resisted by state governments'.

The most pertinent feature of the Water Act might not be either MDBA or the basin plan it produces, but rather a lesser known entity created by the Act, the CEWH, or Commonwealth Environmental Water Holder which is responsible for buying water entitlements at market prices from willing sellers. This gives the central government an instrument with which to enforce the basin plan even without state consent and plans. Indeed, purchases are already underway even without the basin plan being finalized. As Connell notes: 'Through the CEWH the federal government will be able to achieve the environmental flow targets of the Basin Plan even if the states do not give their support.'

In the terminology of our framework, CEWH is a centralizing instrument, one which may be able to make progress even when a cooperative solution is not forthcoming.

To summarize the extensive and diverse Australian experience, one can see all five of the federal reform strategies described earlier in this chapter deployed in Australia as ways to bring about reforms in areas which have been outside the full control of the central government.

One certainly sees strong examples of cooperative federalism, both through the various agreements reached, such as NCP, and as institutionalized through various bodies, such as COAG.

But for key reforms, cooperation has not been enough. Conditional federalism has also been deployed to provide financial incentives to push through important reforms. In general, these incentives are seen to have been effective despite their relatively small size. Paul Gretton in his chapter writes: 'It is generally considered that NCP reforms would have been far slower and less comprehensive without competition payments linked clearly to satisfactory progress in the implementation of reform.'

Thirdly, programme federalism has been used with the nature and shape of earmarked transfers modified to push reforms in particular areas. It is too early to comment on the success of these efforts, as they are very recent, but there are no clear breakthroughs yet.

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Fourth, we also see the Commonwealth at various times reverting to centralizing federalism, in particular in areas where there is no consensus. Industrial relations are one example of this, and water management an even better one for our purposes. In relation to MDB, we see the central government pursuing a cooperative agreement, and we also see the use of financial incentives through irrigation payments. But neither of these has been particularly effective, and the biggest driver of change has been the purchase of water entitlements by the central government, with no agreement from, and with no compensation to the states.

Indeed, if NCP shows the power of combining cooperative and conditional approaches to federalism, the MDB reforms show their limit.

Fifth, we see examples of competitive federalism supported by the central government. For example, Victoria established activity-based funding to manage its hospitals and established itself as the most efficient hospital manager in the country; now the central government has reached an agreement with all the states to shift to activity-based funding for all hospital funding.

THE INDIAN EXPERIENCE

At first glance, it is hard to think of two countries more different than India and Australia. India has 50 times the population, and five times the number of states as Australia. Many states in India have a much bigger population than Australia. India is of course also much poorer. It has a more complex political set-up, including a number of regional parties, which are largely missing from Australia. And, in general, it is believed that governance is much poorer in India, and corruption higher.

Yet, for all these differences, India and Australia do share certain similarities especially for the purpose of this volume. First of all, they are obviously both constitutional federations. Second, state governments have major expenditure and policy responsibilities in both. Third, India like Australia is characterized by a high degree of vertical imbalance. According to the World Bank (2005), in India states account for 39 per cent of the total government revenue and 57 per cent of the total government expenditure, while in Australia the relevant proportions are 49 and 32 per cent. Fourth, the transfer system from the centre to the states is characterized by the same mix of untied equalizing transfers and special purpose transfers in India as in Australia. Fifth, again like Australia, India has been through a long reform process. The focus in the early 1990s was on external reforms, with a shift away from central licensing and protection based on quotas and tariffs. All of this was a matter for the central government. But there was a shift over the 1990s towards a greater emphasis on state level reforms. Much of this was bottom-up. There was a growth in regional parties at the state-level, and a shift towards a coalition government at the central level, which titled the balance of power towards these states. The shift away from licensing removed the ability of the central government to direct investment, and the enabling environment of the state became much more consequential. And then in the late 1990s, there was a state-level fiscal crisis which had a similar galvanizing effect as the 1991 balance of payments crisis had on national-level reforms.

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As well as these bottom-up reforms, there was also a growing interest from the central government in reforms in areas which lay within the domain of the states, in particular infrastructure and the social sectors. As Rao and Sen note in their chapter in this volume: '...the Indian constitution assigns a predominant role to the states in the provision of social services and co-equal responsibility in the provision of physical infrastructure.'

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India's central government has been involved over the last decades in both reform *of* federalism and reform *through* federalism. The chapter by Rao and Sen reviews both the dimensions.

In terms of reform of federalism, Rao and Sen show there has been a concentration of effort in two areas. First, there has been an emphasis on tax reforms. India has what can only be described as a messy tax system, with the complicating feature that, among other things, the centre has the right under the constitution to tax production, and the states the right to tax sales. Perhaps the most prominent cooperative federal effort in India in recent years was the work of the Empowered Committee of State Finance Ministers to replace the state sales tax by a value added tax (VAT) in April 2005. However, the state VAT is levied only on goods leaving out services and the central VAT is confined to the manufacturing stage. Further work is underway to introduce parallel systems of goods and services tax at the central and state levels but this will itself require a constitutional amendment and a lot of cooperative effort between the central and state governments and among the states inter-se.

The second key federal reform described by Rao and Sen has been an attempt to harden the budget constraints of state governments. Only recently has the central government stopped lending to state governments (except to pass on official external loans). There remain, however, a variety of ways in which state governments 'soften' their budget constraints, so this, like tax reforms, is an unfinished agenda.

Apart from this reform of federalism, the federal government has also over the last decade tried to induce a number of reforms through federalism. In particular, the idea of 'incentivizing reform' has gained considerable currency and, as Rao and Sen document, has now been applied to a variety of reform efforts, from fiscal reforms to reforms of infrastructure (power and irrigation) and to urban reforms.

Rao and Sen review the performance of these incentive schemes in their chapter. Their main focus is on fiscal reforms. In contrast to Australia, and indeed to other reform schemes in India, fiscal reform schemes have been designed not by the central government, nor by a cooperative effort of the central and state governments, but by successive Finance Commissions, the body which is constituted every five years in India to determine the vertical and horizontal sharing of the central government's taxes with and among states. The introduction of these schemes was a severe break with the past, and its propriety was contested by some. It began in 1999 when, after the main terms of reference had already been issued by the central government for the Finance Commission, ~~it also~~ issued an additional term of reference which required the commission to 'draw a monitorable fiscal reforms programme… and recommend the manner in which the grants to the states… may be linked to progress in implementing the programme'. The Eleventh Finance Commission duly drew up such a scheme which began in 2000–01. The Twelfth Finance Commission linked a debt write-off scheme to fiscal performance which ran from 2005–06 to 2009–10. The Thirteenth Finance Commission ~~has~~ continued the tradition of outlining a fiscal consolidation road map, but ~~has~~ moved away from linking fiscal reforms to grants, though it ~~has~~ introduced a number of new conditional grants in other areas.

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The overall assessment reached by Rao and Sen is a balanced one:

> The experience of incentivising reforms at the state level cannot be called an unqualified success by any means but neither is it a total failure. There are

elements of incentives which have succeeded but, at the same time, it has not been able to accomplish the objectives in entirety. The most important success story is that of implementing tax reforms... The incentive system introduced through the fiscal restructuring plan by the Twelfth Finance Commission was another clear instance of the successful application of incentives to the states to embrace fiscal discipline....As against the successes mentioned above, there are a number of incentive schemes which have not met with the anticipated measure of success. Both irrigation and power sector reforms suffer from shortcomings and so does the urban renewal mission.

Incentives will continue to be important, but certainly do not suffice as a reform strategy. Rao and Sen conclude:

In the final analysis, political incentive is the best incentive to undertake economic reforms and there are examples, though isolated, to show that long-term reform policies can also be political winners. The important long-term reform of governance and developmental policies undertaken in Gujarat, and more recently in Bihar, have been politically rewarding as well. In fact, this has the potential to trigger healthy inter-governmental competition at the state level thorough the 'Salmon mechanism' which can lead to improved developmental outcomes. Under this, the electorate, as well as the opposition parties in the state, benchmark the performances of the better performing states and place pressure on the incumbent government to provide the benchmarked standards of services (Breton 1996; Salmon 2006). While this can be a long-term solution, in the interim it is necessary to experiment with various types of incentives.

Vikram Chand in his contribution to this volume examines the governance dimensions of reforms in India. Public sector management reforms have certainly been part of the reform agenda in Australia, but the federal dimensions of these reforms have not been prominent. Nor has the need for such reforms been as acute in Australia as it is in India, where as noted earlier, governance standards in general are much lower.
Not surprisingly perhaps, given its diverse nature, a number of different strategies have been used to drive governance reforms in India. As Chand summarizes:

Theoretically, this paper grapples with the question of how reforms occur through federalism. Centralizing federalism offers examples of failure (the inability to control IAS transfers in states or compel states to create an effective

> anti-corruption authority) and success (counteracting state-level mismanagement in the hydro power sector). Competitive federalism offers examples of reforms driven by states, such as Bihar and Gujarat, that may have a demonstration effect on other states as well. Cooperative federalism is much more difficult to achieve because of the difficulty of coordinating state responses to reform issues with spill-over effects and externalities but there are examples where cooperation has produced significant changes (India's Right to Information Act, for example). The record of programme federalism is more mixed: centrally sponsored schemes have allowed the central government to intrude on areas of state competence without improving outcomes in many instances.

Importantly, Chand's paper reminds us of the importance of bottom-up reforms, emanating from individual states. Like Rao and Sen, he singles out Bihar and Gujarat as examples:

> A federation like India will always throw up examples of good and less good governance in its many states. Bihar and Gujarat today represent examples of major governance reforms occurring at the state level without much involvement by the central government. These two states have in turn offered models for other states seeking to improve their governance structures, while fostering a dynamic of competitive developmentalism and, in turn, one of most significant paths to reforms in any federation.

But it is not realistic to suggest that India should simply wait for the demonstration effect to work its way through the sub-continent. The task is too urgent and complex for that, and the central government certainly needs to play a leadership role. As argued by Chand, centralizing federalism is not the answer either: 'The growing strength of regional parties means that it is relatively easy for states to resist central government initiatives that they dislike. The fact that the central government itself rests on a fragile coalition arrangement in which allies can veto reforms makes it even harder for the central government to effect change.'

Chand concludes that ~~what is needed instead is that~~: '... India needs to move towards a more effective form of cooperative federalism that allows for genuine reform to occur, as in the case of the Right to Information Act, but which avoids the dilution that a consensus-based solution can entail. This may seem like a tall order, but it is the only alternative in India's increasingly assertive federation.'

Another similarity which India shares with Australia is environmental stress. Nirvikar Singh in his chapter on federalism and water management in India notes that India will be one of the countries most severely affected by water shortages in the coming years. Drawing on research from the 2030 Water Resources Group (2009), he notes that 'Its potential supply shortfall could be 50 per cent of possible demand two decades from now'. India has 2.4 per cent of the world's total area and 16 per cent of the world's population, but only about 4 per cent of the total available fresh water.'

Singh also observes that water is a subject which involves all three tiers of government in India—local, state, and national. Local water infrastructure is a local government responsibility. Most other water issues are state responsibilities, but the central government has a role in relation to inter-state rivers.

It is also evident that water management is one area where cooperative federalism has been extensively pursued in India. In 1983, the National Water Resources Council was created. Its membership includes chief ministers of states, lieutenant governors of union territories, several central government ministers and the Prime Minister as chairman.

India also has a mechanism for the resolution of inter-state water disputes, namely the Inter-State Water Disputes Act of 1956.

However, the existing mechanisms are not working well. Singh notes that some 100 disputes have been documented, but only a few referred to the tribunal. Singh makes a number of recommendations for improving the dispute resolution mechanism. These include automatic referral of any dispute if any party to the dispute of the centre requested it.

Even then, he is pessimistic of success, since it is difficult to ensure compliance. Reforms have been made to strengthen the dispute resolution process. In 2002, time limits were imposed and tribunals' statutory authority strengthened. Yet, Singh notes, this has 'not been enough to defuse the most contentious conflicts'.

More fundamental reforms are therefore required to overcome the fundamental problem that 'if the rest of the process is politically charged, ambiguous and non-transparent, it is more difficult to have the outcome viewed as a neutral judicial order'.

Singh makes further recommendations for more fundamental reforms. He proposes 'the creation of specialized permanent institutions to regulate the allocation of water across states, including the resolution of water disputes. These institutions would reflect the federal structure of the country, but with a greater degree of transparency and independence than the current situation.'

Specifically, Singh proposes the development of a hierarchy of water management institutions from the local level upwards to river basin authorities, and then to a national commission. The model is the Finance Commission, mentioned earlier, an institution which is subject to lobbying, but which is generally regarded as highly successful because it is seen as being outside of politics and as being competent and unbiased.

Overall, in India, as in Australia, we again see all five federal reform strategies being utilized. India has made use of cooperative agreements, incentive payments, earmarked payments, and centralizing decisions. It has also benefited from bottom-up reform efforts, which the central government has sometimes been able to mainstream. Also as in Australia, the success of the strategies has been mixed.

Before drawing together the lessons available from both the Australian and Indian experiences, we turn to the other two Asian countries featured in this volume, China and Indonesia.

CHINA AND INDONESIA

Sherry Tao Kong makes an important contribution to this volume by taking a broad comparative look at the links between federalism and economic performance in two other large Asian economies, namely China and Indonesia.

Her paper is a study in contrasts and commonalities. Beginning with the latter, she shows how both China and Indonesia have emerged from systems of highly centralized power and poor economic performance: China under Mao and Indonesia under Soekarno. Both countries, however, have then experienced extended periods of economic growth and integration with the global economy. Both also underwent deep institutional change towards less concentrated configurations of power, though in China this happened well before Indonesia, and without a transition away from authoritarianism.

Their divergence of experience relates, crucially for this volume, to the two countries' experience with decentralization or federalism. Kong argues that in China decentralization was a critical ingredient of the power diffusion strategy which put that country on the road to prosperity. Indonesia has also decentralized, but though it has made a successful transition to democracy, the '... much more dispersed form of federalism in Indonesia today has not yet seemed to provide the intended incentives for good policies to be adopted and implemented'. N

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Indonesia's decentralized system is not stable (new provinces and especially districts are constantly being created) and local governance is poor.

Accordingly, the two countries today face very different challenges. China scores highly on the market-preserving scale. Indeed, it was the model for Weingast. This has worked well in producing growth. But whether it can deliver the rebalancing China now seeks—with lower growth, lower investment, higher consumption, greater social protection, ~~and~~ less pollution, and an economy which is less dominated by the industry sector and by exports—remains to be seen. As Kong writes, 'Established incentives for pursuing maximized growth rates may become an obstacle for responding to new demands.'

Indonesia's challenge by contrast is to get its newfound decentralization to work, and to move closer to the market-preserving ideal.

Neither China nor Indonesia have made much use of the various federal reform strategies which have been so popular in Australia and India, except in China where competitive federalism has been the norm. In China, states have been regarded as laboratories. Where some reforms have been found to work, the Chinese government has mandated their use over the country. In other cases, the Chinese government has been content to give states the incentive to grow, and then let them get on with it. And Indonesia is still coming to terms with its new decentralized structure.

In both the countries, however, it is probably safe to predict that the centre will become a more active participant in state reforms. Take natural resource management as an example, an issue of growing importance for both countries.

As part of its rebalancing, China is now committed to various national environmental goals such as a reduced ratio of carbon dioxide emissions to GDP. It has cascaded these down to the provinces, and given each province its own individual targets. How the centre can now provide incentives to the states to meet their targets is an open question. Various techniques are being tried, from individual contracts to market systems.

Indonesia has also committed itself to better environmental management, in particular to a new management regime for its forests to reduce the very high level of greenhouse gas emissions. But given that local governments have so much power over forests, how can Indonesia implement this national commitment. ? ?

This is the question which Ardiansyah and Jotzo try to answer in their chapter in this volume. They delineate between different types of approaches, more or less centralized, which could be taken to this issue, and argue for a 'national approach with sub-national implementation' in which the central government will develop the overall strategy and be responsible for monitoring, but in which local governments will drive action, in return for payments.

Under this approach, as Ardiansyah and Jotzo note, 'positive incentive needs to be created for local governments, to compensate for foregone profits and to facilitate alternative development.' Their paper sets out two options of how this can be achieved within the existing system of inter-governmental transfers: outcome-based and input-based.

Their outcome-based option is akin to what we describe in this volume as conditional federalism. Thus: '... local governments will commit to specific actions and outcomes of their own choosing, and will be paid agreed amounts of money by the central governments on successful implementation. Districts will be free to use the payments as they choose.'

The input-payment option by contrast is closer to what we call programme federalism. The central government will reimburse local governments for costs incurred.

Though Ardiansyah and Jotzo consider both schemes to be feasible, they are somewhat sceptical about the first. Not only are 'reliable systems for monitoring and control ... needed to ensure that claimed successes are real'. More challenging still, punishments as well as rewards will be needed. But 'punitive measures may be much more difficult to implement, especially in light of Indonesia's often poor track record in enforcing policies and implementation.' They conclude therefore that an input-based approach 'may provide a more readily deployable near-term option'.

LESSONS LEARNT

We hope the reader will agree that what we have summarized in this chapter is a fascinating collection of case studies and analyses of federal reform strategies, rich in insight and policy relevance. But can we go further and seek that holy grail of all such comparative studies: lessons learnt? What, if any, generalizations can we learn from these cross-country and cross-sectoral pieces? We suggest that they are nine. Some of them are simple, perhaps obvious, others less so. All we think are helpful.

Of course, it would be a mistake to reduce the richness of the material in this volume entirely to a summary of lessons learnt. Nevertheless, we do think there is value in articulating some comment themes which emerge:

1. Central governments pursue a range of federal reform strategies to achieve important reform goals in areas where they lack exclusive jurisdiction. Some countries make much more use of these strategies than others.

In both Australia and India, we can see examples of cooperative, conditional, programmes, centralizing, and competitive federal reform strategies being pursued by central governments to advance important national reform strategies, both economic and environmental. We see much less evidence of such strategies in China and Indonesia, except for China's heavy reliance on competitive federalism.

There are several factors which help explain this difference. Both India and Australia are stable federations and ones where the central governments have limited powers over important areas. It is the exception rather than the rule in both countries that the same party is in power at the centre and in the states. By contrast, in China the unifying force of the Communist Party provides a mechanism by which national changes in direction can be made without the need for formal reform strategies. And in Indonesia, the country's new decentralized power structure is still in formation.

2. Reforming federations pursue cooperative reform agreements and establish cooperative institutions, with mixed success.

Clearly, national reform agendas, which involve more than one layer of government, require national cross-government reform agreements. They also require institutions within which agreements can be hatched, monitored and updated, and within which disputes can be resolved. Institutions such as the Council of Australian Governments play this role relatively effectively in Australia, while in India the Empowered Committee of State Finance Ministers, for example, has played a critical role in harmonizing state indirect tax systems.

However, simply reaching an agreement or establishing a cooperative forum is not in itself a guarantee of success. Some cooperative federal reforms succeed, some fail. Several chapters in this volume contain examples of both. Both Singh and Connell in particular are in the end dismissive of the role that cooperative institutions and agreements have played in relation to water management in India and in Australia respectively.

Both Chand, in the context of governance reforms in India, and Howes and Engele, in the very different context of Australian regulatory and health reforms, point to the importance of a shared consensus across governments. Absent such an underlying consensus not only on the problem but also on the solution, a formal agreement may achieve very little.

3. Incentive funds can provide important levers to advance national reform agendas.

Cooperative federalism is a well-established strategy for pursuing national reforms. But both India and Australia ~~went~~ beyond cooperative agreements by using incentive funds to encourage the implementation of those agreements. Indeed, in India the reforms being implemented ~~were~~ not necessarily based on a cooperative agreement. They ~~were~~ sometimes simply laid down by the centre, and sometimes by the Finance Commission.

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Incentive funds do not always work. Engele and Howes argue that they have been less effective in the post-NCP era in Australia than in the NCP era itself. And Rao and Sen note their mixed success in India. As they point out: 'incentives should be strong enough for the states to adopt them.'

But there are also clear cases of success in both India and Australia. In the former, incentives were usefully used to drive tax reforms and to reduce state-level deficits, and in the latter incentives helped push forward ~~the~~ national competition policy. It is not possible to know to what extent the motivation that these funds provided was financial, and to what extent they played a signaling role. But, for whatever reason, they seemed to be effective.

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Given this track record, the conclusion reached by Wallack and Srinivasan (2006: 476) that such funds 'are either ineffective or create further distortions' is too negative.

4. There is little evidence that the use of earmarked grants can improve subnational performance.

Earmarked funds (a form of programme federalism as we refer to it in this volume) are constantly criticized for reducing the freedom of states to experiment and for replacing flexibility by rigidity. As Chand writes, earmarked transfers in India or centrally sponsored schemes, as they are called, have: '... closed off space for state-level experimentation, frequently boxed states into an inflexible set of parameters which were relatively insensitive to local context, and, in many instances, encouraged rent-seeking through complex delivery chains and weak oversight mechanisms.'

Even if they are poorly performing, earmarked transfers are unlikely to disappear simply because, as long as there is vertical imbalance, central governments will continue to have preferences over how the funds they transfer to the states are spent.

There are constant calls in both Australia and India to rationalize earmarked funds. However, neither country has succeeded in this. Australia has tried, but as Howes and Engele document, with little success so far.

5. Competitive federalism can be a powerful driver of reforms, and may be undermined by national reform efforts.

We have seen in example after example that many of the best ideas for reforms emerge bottom-up. This is the path of competitive federalism. Chand gives several examples from this in relation to governance reforms in India, focusing in particular on the cases of Gujarat and Bihar. Howes and Engele note that the national health reform strategy now being pursued in Australia emanated from the state of Victoria.

Other national reform strategies may undermine the scope for competitive federalism. Single market reforms are often harmonizing reforms whether in relation to tax structures or rates, or labeling requirements. Inevitably, they reduce the scope for competitive federalism.[3] So does programme federalism through its emphasis on earmarked transfers. There can be a trade-off here. How this is to be resolved is unclear. No central government will simply wait for individual provinces or states to 'find their own way'. At a minimum, the central government has an important role to play in monitoring state performance, in publicizing success stories, and in encouraging other states to adopt successful innovations from reforming states.

[3] This was also noted by Salmon (2003: 18) in relation to the EU: 'The capacity of the national and sub-national governments to innovate, or simply to act, is also constrained by another aspect of the single-market programme, which is to implement "fair competition" and a "level-playing field".'

6. Centralizing solutions can provide a useful backstop when other federal reform strategies fail.

Sometimes cooperative agreements and incentive payments are not enough to drive national reforms. For contentious reforms, central governments may need to reach for centralizing solutions. This is certainly the case with MDB, where, as Daniel Connell argues, the most effective move that the Commonwealth government seems to have made is to establish a water buy-back mechanism which allows it to bypass the need for a state agreement.

A centralizing reform need not always be more intrusive. One example of this, also from Australia, is the case of occupational heath and safety reforms, where as Howes and Engele argue the cooperative harmonization effort underway appears to have run aground. Ironically, the benefits of harmonization could have been harvested much more quickly if the central government had continued to allow firms to opt for the national occupational health and safety regime rather than forcing them to exit that regime pushing up their compliance costs unless the difficult goal of inter-state harmonization is actually achieved.

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Of course, centralized solutions are no more guaranteed to work than any of the other approaches highlighted in this volume. Vikram Chand reveals in detail the failure of the centralizing approach to the worthy goal of strengthening anti-corruption institutions pursued by the central government, an effort which floundered ultimately in the face of opposition from regional parties.

7. The reform of federalism remains an important goal for most countries, and can itself be pursued through various federal reform strategies.

Market-preserving federalism reforms such as hardening budget constraints and moving towards a common market have been important reform goals for both Australia and India. Such reforms can themselves be usefully pursued through federal reform strategies such as cooperative agreements and incentive payments. This is evident in both the Australian and the Indian experience as various chapters in this volume document.

8. Overall, experience to date points to the use of a diversified reform strategies for promoting reforms in a federation.

In our terminology, Wallack and Srinivasan (2006: 489) endorse cooperative over conditional approaches to inducing reform in a federation. Our more extensive and focused examination of federal reform strategies in Asia, and in India and Australia in particular, leads to a less clear-cut conclusion. We find mixed success for cooperative, conditional, centralizing, and competitive federal reform strategies. We are less enthusiastic about programme federalism, but it is here to stay (in the form of earmarked transfers) so reforms to it are also important, if difficult.

From one perspective, our failure to reach a clear-cut conclusion in relation to the dominance of any single reform strategy is disappointing. On the other, it suggests to central governments that they have a range of strategies at their disposal when it comes to implementing national reform agendas, that proceeding by experimentation and with careful monitoring will be critical, and that it may be necessary over time to change tack.

9. National and independent reform monitoring and evaluation is helpful for national reforms, whatever the strategy pursued.

Paul Gretton is his chapter in this volume points to the useful rule the Australian Productivity Commission has played in national reform efforts through the provision of 'economy-wide quantitative modeling to inform governments of the potential benefits of reforms and to illustrate the likely economic effects of completed reforms'. n He also points to the useful role played by 'independent oversight and monitoring bodies' such as the National Competition Council and more recently the COAG Reform Council. In India, the Finance Commission, with its constitutionally-guaranteed independence, has played a key role in pushing forward state reforms.

~~***~~ CONCLUSION

Clearly this is a work in progress. There are unfinished reform agendas in both Australia and India, as there are in Asia's other large economies, such as China and Indonesia. We have done enough in this volume to demonstrate the importance of federal reform strategies ~~as a way for~~ to advancing national reform agendas, whether in the area of economic integration and reforms or with regard to natural resource management. advance

We predict that focus on federal reform strategies by governments will grow, in particular as the importance of behind-the-border and natural resource management reforms grows. We also surmise that China and Indonesia will become more like Australia and India in this regard as their federations stabilize and mature, and the central governments in both the countries search for instruments to influence sub-national behaviour (as Aridiansyah and Jotzo's forward-looking paper illustrates for Indonesia in the case of deforestation).

If indeed the focus by governments does grow, then there will be a corresponding need by analysts to watch, learn, and advise. We hope that this volume will start filling the gap in relation to our study of federal reform strategies, and that others will build on ~~what we have started~~. our efforts.

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