

Reflections on Australian Federalism

To Tom Harley and the team at the Menzies Research Centre, thank you for organising this function this evening.

It is fitting that I'm here in Melbourne – home of the Commonwealth Parliament for the first 26 years of Federation – to make some remarks on Australian federalism near the start of the 21st century.

A little over 60 years ago, Robert Menzies spoke of the ‘magnificent journey’ he and the other founding fathers and mothers of the Liberal Party were embarking on. Guiding this journey has been a philosophy of private enterprise and individual freedom, harnessed to building a strong, united, competitive and fair Australia.

The Liberal Party is the trustee and custodian of two great traditions – the classical liberal tradition and also the conservative tradition. It continues the vision that Menzies had of a party that stands above sectional interests to represent the great mainstream of Australian society.

We are a party both of courageous reform where the national interest demands it and also a party that values and preserves the traditions that all Australians cherish.

The Menzies Research Centre, by delivering ideas and policy options to the heart of Government, is uniquely placed to extend Australian Liberalism's historic contribution to our nation – to extend the ‘magnificent journey’.

I lead a Government committed to renewal from strength. After nine years in office, we are more determined than ever to engage in the battle of ideas.

We know that if Australia is to grow and prosper in the 21st century we must embrace continuous reform.

In addressing the condition of federalism in Australia let me make it clear at the outset that the federal structure of our nation will remain. The responsibility of all in government is to make it work better for the welfare of the Australian people.

If we had our time again, we might have organised ourselves differently, but that is pure theorising.

There has been some commentary of late that my Government has discarded its political inheritance in a rush towards centralism. Ironically, this charge has arisen just as the Commonwealth is being urged by many people to assume more and more responsibilities – especially in areas of economic and social infrastructure traditionally owned and run by the States.

These fears of a new centralism rest on a complete misunderstanding of the Government's thinking and reform direction. Where we seek a change in the Federal-State balance, our goal is to expand individual choice, freedom and opportunity, not to expand the reach of the central government.

For example, the desire to have a more national system of industrial relations is driven by our wish that as many businesses and employees as possible have the freedom, flexibility and individual choice which is characteristic of the Liberal Party's workplace relations philosophy. This can only be achieved by removing the dead weight of Labor's highly-regulated State industrial relations systems.

The goal is to free the individual, not to trample on the States.

We have no desire to take over functions that are being properly discharged by States and Territories. On the contrary, with the GST, my Government delivered the most important federalist breakthrough since the Commonwealth took over income taxing powers during World War II.

But nor will we shirk our responsibility to seek the best possible outcomes for the nation and to extend Australia's economic prosperity in the 21st century.

I am, first and last, an Australian nationalist. When I think about all this country is and everything it can become, I have little time for state parochialism.

This Government's approach to our Federation is quite simple. Our ideal position is that the States should meet their responsibilities and we will meet ours. And our first impulse is to seek cooperation with States and Territories on national challenges where there is overlapping responsibility.

But I have never been one to genuflect uncritically at the altar of States' rights. Our Federation should be about better lives for people, not quiet lives for governments.

Liberalism and Federalism in a changing world

Australian Liberalism has always been an optimistic creed. It values freedom and initiative over compulsion and conformity.

The golden thread of this inheritance is to trust the choices of the Australian people. It is a philosophy we bring to areas such as education, health-care, workplace relations and helping parents find the right balance between work and family life.

It is a philosophy with a timeless quality in a world of constant change. I believe that part of that change is a greater focus by the Australian people on ties to nation and to local community, and less on traditional state loyalties.

The nationalisation of both our economy and our society can be seen over time – in everything from the way people do business to our sporting allegiances.

When I was a young solicitor in Sydney in the early 1960s, our legal firms were confined exclusively to state capitals. A Sydney law firm like Allen Allen and Hemsley (now Allens Arthur Robinson) would, for example, have Victorian agents for its business in Melbourne. Today, of course, that is no longer the case and the same trend has occurred across all sectors of our economy.

Think too of the nationalisation of our football codes. Once upon a time, someone following the Victorian Football League would have been an oddity in Sydney or Brisbane. Today, we all put in our footy tips for the AFL every Friday.

And who would have thought a few years ago that Melbourne would for a time hold the record for the largest Rugby crowd in Australian history?

In the vital area of education, the increased mobility of our population means that no fewer than 80,000 Australian students move from one State or Territory to another each year.

Against this backdrop of the nationalisation of our economy and our society there is understandable frustration, even anger, among the Australian people at what they see as the constant buck-passing in our federal system and a failure to achieve uniformity when it will deliver obvious benefits.

Too often we talk about cost-shifting. All Australians hear is blame-shifting.

As societies change and attitudes change, so there are inevitable pressures on political structures and parties to change too.

I'm reminded of this when I think of my party's conversion to industrial relations reform. For many years, the Liberal Party was more than comfortable with the old system of centralised wage fixing and arbitration.

I well recall Menzies praising the system's contribution to industrial peace and productivity in writings after his retirement. Like many others, he saw any move towards workplace bargaining as leading inevitably to strikes and industrial dislocation.

This is not a view many Liberals would share today. Nor is there any desire within the Australian community – in a more entrepreneurial and self-reliant nation – to turn back the clock to a more illiberal industrial relations system.

Similarly, my own attitude towards our federal system has evolved over a life in politics. Like other Liberals, I am a strong constitutionalist.

The dispersal of power that a federal system promotes, together with its potential to deliver services closer to peoples' needs, are threads of our political inheritance that I have always valued and respected.

The trouble is that, in practice, there is often less to these arguments than meets the eye.

For instance, the view that State governments have benign decentralist tendencies has always been something of a myth.

At various times, State Governments of both political persuasions have found occasion to trample over local government decision-making. Without passing judgement on particular cases, it does expose the selective indignation of the States when it comes to the virtues of decentralisation.

And a State education bureaucracy can appear pretty remote if you are a parent in Mount Isa or Kununurra struggling to make sense of your child's unintelligible report card.

This indifference to localism can apply to metropolitan areas as well. In recent years in both New South Wales and Queensland, government schools wishing to expel students under a strict anti-drugs policy have been overruled by State bureaucracies, to the understandable chagrin of parents and teachers.

But the major source of discontent with Australia's federal system today turns on the underwhelming performance of State governments following the introduction of the Goods and Services Tax.

Those who argue that the Government has embraced centralism are suffering from a severe case of historical myopia. Our decision five years ago to grant every last dollar of the GST to States and Territories was the greatest vote of confidence in the federal system in the Liberal Party's history.

For years – first as Treasurer and then as Prime Minister – I sat across the table from Premiers of both political persuasions who pleaded for a growth tax. The calls came as strongly from Charles Court and Joh Bjelke-Petersen and Jeff Kennett as they did from Neville Wran and John Cain and Steve Bracks.

They said: 'Give us a growth tax and we will leave you alone. We will get on and deliver the services like public hospitals, police, public transport and government schools which are the core responsibilities of the states.'

We delivered with the GST. It liberated the States from their dependence on inefficient financial taxes and from general revenue assistance grants provided by the Commonwealth.

No government in 60 years has given the States more fiscal autonomy to fulfil their constitutional responsibilities.

In March 2000, we estimated that States and Territories would benefit in the first eight years by \$3.7 billion over and above the previous revenue sharing arrangements. In fact, the latest estimates suggest that benefit will be almost \$10 billion.

Over the next five years, States and Territories collectively will be \$16 billion better off than they would have been under the arrangements I inherited from Paul Keating. In that time, the windfall to Victoria alone will be about \$3.2 billion.

All the Commonwealth asks now is that the States make a determined effort to meet their responsibilities and obligations.

Part of that bargain was to reduce the burden of state taxes. Peter Costello has outlined a plan which would cut indirect taxes by \$8.8 billion by 2009-2010 and still leave the States better off by around \$7.5 billion. This targets inefficient, nuisance taxes on business – especially a range of stamp duties.

Abolishing these taxes will help Australian firms to compete in a tough, competitive world. It is not centralism to want to cut taxes. It is liberalism.

Water and Indigenous Issues: Cooperation in practice

Looking across the federal system, we find areas where our Federation works well, areas where the case for rationalisation is strong, and areas where a more incremental approach is the best way to proceed.

Cooperation between the Commonwealth and the States on water reform is a good example of how the federal system can work for Australia's betterment. While the States have constitutional responsibility for water management, a national approach was needed to deal with what I have called the great conservation challenge of our age.

The greatest of Australian rivers, the Murray, flows from Queensland to South Australia. What happens in one State directly affects irrigation and the environment downstream in another State. Farmers need to have secure access to water – our scarcest resource – on a sustainable basis.

The Commonwealth led the development of the National Water Initiative and has now established the National Water Commission, with the cooperation of State and Territory governments.

Only last week I signed a path breaking agreement with the Chief Minister of the Northern Territory, Clare Martin. It set out how together we would better deliver services to indigenous communities.

It included an arrangement by which the Territory would provide housing programmes on behalf of both governments. We also agreed that we will continue to work together to ensure that indigenous families can have far greater choice in how they can lease Aboriginal land to have their own homes and build their own businesses.

I hope that we will soon have similar agreements with other States and Territories.

These examples show that, with sufficient political commitment and goodwill, there is no intrinsic barrier to the Commonwealth and the States together tackling big national challenges.

Industrial relations reform

In other cases, however, the existing structure of Federal-State responsibilities has run its course.

Soon, my Government will unveil a new round of industrial relations reforms to bring Australia's workplace relations system finally into the 21st century. Reform is vital if Australia is to further consolidate the transformation of its economy to one where wages are based on the capacity of firms to pay and on the productivity of individual workplaces.

We made good progress towards a more flexible and competitive system with the passage of the *Workplace Relations Act* in 1996. But, as many of you know, important reforms in areas such as unfair dismissals and improved flexibility in agreement making have been blocked repeatedly in the Senate.

We have also seen Labor States gum up workplaces with regulation in recent years, often at the behest of the trade union movement. Independent contractors, the very epitome of the free enterprise spirit, have been under regular attack from unions and Labor Governments looking to place barriers on the freedom to contract and to place conditions on the use of independent contractors.

In last year's election campaign, the Government promised to protect the rights and legal status of independent contractors. We are well advanced with plans to do so.

But with the favourable election outcome in the Senate, we are now in a position to drive the industrial relations reform process further in ways consistent with liberal philosophy.

A single set of national laws on industrial relations is an idea whose time has come. It is the next logical step towards a workplace relations system that supports greater freedom, flexibility and individual choice.

Again, this is not about empowering Canberra. It is about liberating workplaces from Colac to Cooktown.

To further demonstrate that a uniform industrial relations system is no embrace of radical centralism, I remind you that the Kennett Government referred these powers and the Bracks Government has maintained this position.

There is no evidence that this referral of powers has disadvantaged the workers of Victoria.

This experience exposes the complete hollowness of any scare campaigns that unions or State Labor Governments might seek to whip up over our industrial relations reforms.

We have come a long way from the days when the Industrial Relations Club (largely based here in Melbourne) set the wages and conditions for workplaces right around this country. But in an age when our productivity must match that of global competitors, forcing Australian firms to comply with six different industrial relations systems is an anachronism we can no longer afford.

The current system of overlapping federal and state awards is too complex, costly and inefficient. Employers and employees frequently face a patchwork

of regulation, having to accommodate overlapping state and federal regulations within the one workplace.

There are currently some 2,300 federal awards and over 1,700 state awards, and multiple state and federal awards can apply to one business. Small businesses particularly struggle to cope with complex and overlapping labour market regulation.

Our preference is for a single system to be agreed between the Commonwealth and the States – as was the case with Victoria’s referral of power in 1996. I repeat: our preference is for cooperation.

But, in the absence of referrals by the States, the Government will do what it reasonably can to move towards a more streamlined, unified and efficient system.

We are considering a package of reforms based on the corporations power that will bring roughly 85-90 per cent of employees into a national workplace relations system.

If that is the case, the likelihood is that in the years ahead an increasing number of States will decide to refer their remaining powers to the Commonwealth.

Health and education: Incremental change

I remind you, however, that areas where the Commonwealth will seek to cover the field in our federal system will always be very rare. In most cases, making our Federation work better will rely on a more incremental approach.

Incremental reform usually gets a bad press, especially from editorial writers accustomed to dispensing advice in 800 words or less. But incremental or

piecemeal reform is in fact the kind of reform that liberals and conservatives invariably are most comfortable with.

Indeed, as Karl Popper taught us half a century ago, it is often the most rational approach – especially if the alternative is utopian social engineering.

Health and education are two areas where overlapping roles and responsibilities are built into our federal system.

Despite problems that arise from time to time, I am not one who denigrates our health and education systems. They are among the best in the world.

Among comparable countries our health system ranks highly: third for people's life expectancy; sixth for healthy life expectancy; and third in the OECD for overall health system effectiveness.

Our education system is also rising to the challenges of the 21st century. According to the most recent data, Australian 15-year olds are performing well against benchmarks for reading, mathematics and science when compared with their counterparts in other countries.

There will always be room for improvement and the Australian Government has a particular responsibility to promote choice and to ensure high national standards in health and education.

But I am not persuaded by some of the options for radical reform that are often canvassed. In particular, I am not persuaded that the effectiveness or efficiency of health care in Australia would be improved by the Australian Government assuming responsibility for public hospitals.

Any possible gains would be outweighed by the disadvantages to local hospitals and their communities of management by a distant and centralised health bureaucracy. And it is unlikely that consensus could be achieved for the necessary overhaul of Commonwealth-State financial relations.

My Government has adopted a more targeted approach to finding practical options to improve the delivery of health services to Australians.

In November last year, I commissioned a Health Task Force headed by the former secretary of the Commonwealth Health Department, Mr Andrew Podger. Its focus has been on examining pressures at the interface of the primary, acute, rehabilitative, aged and community care sectors and the obstacles to seamless care.

This work will help to inform the Australian Government's discussions on health at the next Council of Australian Governments meeting.

We want to make things simpler for Australians. As Australians age they come to depend at various times on home and community services, aged accommodation, hospital treatment and hospice care. They do not want to have to worry about which jurisdictions provide which services and their respective funding arrangements.

We need to look carefully at the roles and responsibilities of Commonwealth, State and Territory governments for health, aged and disability care. We do so with only one intent: to make life easier for senior citizens, those with disabilities and those who care for them.

The Commonwealth is also looking to drive reform in a targeted way in the area of vocational and technical education.

Australia currently enjoys the lowest unemployment rate in 30 years. This has created skills shortages in certain parts of the economy and in last year's election campaign the Coalition made far-reaching commitments to boost opportunities in traditional trades.

As I've said many times before, Australia made a cultural error a generation ago when we embraced uncritically the notion that the highest path of success for a young person was to go to university.

This did a huge disservice to the 70 per cent of young people who do not go direct from school to university. And it reflected an intellectual failure to understand the continuing needs of our economy.

The Commonwealth is intent on driving a cultural shift in the area of traditional trades with the creation for the first time of federally-funded Australian Technical Colleges in 24 centres around Australia.

Each college will be run in a way that promotes choice, flexibility and excellence. Each will be linked with industry and run autonomously by their principals. Teaching staff will be offered performance pay and the option of signing Australian Workplace Agreements.

Greater award flexibility is also part of the solution to the problem of skills shortages. Too often, rigid State-based awards – supported by the union movement and overseen by State Labor Governments – create licensing bottlenecks in traditional trades.

In the housing and construction industry, for example, a person can be required to undertake three or four years training on apprentice wages without the option of more specific training over a shorter period. Many State awards also include

barriers to the increased up-take of school-based New Apprentices and part-time New Apprentices.

A single, unified and flexible system of industrial relations law will help to deliver a more market-oriented training system.

While the States currently own and run the TAFE system, the Commonwealth provides about \$2.1 billion in annual funding. The Australian Government will seek to further improve the national training system and to make it more responsive to the needs of industry by resuming the functions of the Australian National Training Authority in mid-2005.

For some, this is yet another terrible incursion into States' rights. In reality, it is the Federal Government stepping in where eight different state systems are failing to deliver what the nation needs.

The end result will be less, not more, bureaucracy and greater choice and opportunity for Australia's young people.

Conclusion

Australians are a non-ideological, pragmatic and empirical people. They want governments to deliver outcomes, not make excuses. They want governments that take responsibility, not states of denial.

Now and in the future, my Government stands ready to cooperate with States and Territories on Australia's great reform challenges. We will continue to err on the side of cooperation.

But while ever the States fail to meet their core responsibilities there will be inevitable tensions in our federal system. With the GST, the States no longer have an alibi.

There are times when tensions can arise within Australian liberalism's traditional commitment to limited government.

This Government recognises that dispersal of power is basic to our philosophy. But so is leaning against an over-governed Australia – something that can become all too apparent in a federal system with eight Labor Governments.

We resolve this ultimately by pursuing policies that spread power, freedom and opportunity to the suburbs, workplaces, towns and farms right across Australia.

In the end, we approach the challenges of Australian federalism as we approach other challenges – not by walking away from our political inheritance, but by seeking to extend it.