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SIR HENRY PARKES COMMEMORATIVE DINNER, TENTERFIELD

25 October 2014

Prime Minister

Ladies and gentlemen, thank you so much for your warm welcome. It's great to be here with Barnaby Joyce, your Federal Member; it's great to be here with Thomas George, your State Member.

It's great to be here at this place where history has been made, because on this day, in this place 125 years ago Sir Henry Parkes made a speech which started the process towards creating a Commonwealth of Australia. He'd been to Queensland for a meeting, the meeting hadn't been a great success, so he wanted to salvage – as I understand it – something from that trip.

So, after being on the train for some seven hours from Brisbane, he called in here to Tenterfield, he came into this building and he gave a galvanising speech – a speech which echoed, if not around the world, certainly around our country.

Then we had no national government. Then, as we've been reminded earlier this evening, we had six colonies, each of them with a prime minister. No army, no unified railway, an embryonic sense of Australian-ness, but no nation that we could call our own, no government that was our national government.

That was then – these days are different. We certainly have a national government and yet we have an

unsatisfactory system of governance, because all too often wherever you look – whether it be the roads, the schools, the hospitals – it's hard to know who is in charge.

That is what bedevils modern Australia in so many areas of our national life – who is really in charge.

So, just as here in this hall 125 years ago, Sir Henry Parkes started a process that gave us a nation, I hope tonight that we might start a process that will give us a more rational system of government. He launched from this hall the federation that was right for those times. Let us relaunch the federation tonight in a way that is right for these times.

Now I was very pleased to receive some months ago the invitation to give this address in memory of Sir Henry Parkes because for many years now I have regarded our federation as having come to a sorry pass. For many years now, as a practitioner of government, as a minister in government, I have thought that we could do better. And the Coalition I have the honour to lead said before the last election that we would start a process with the aim of trying to ensure that once more for these times, as in those times, every level of government will be sovereign in its own sphere and that process is formally begun tonight.

Let me begin tonight, not with Sir Henry Parkes, but with a contemporary now lost in his shadow who helped to make possible Parkes' achievement as a founder of our federation.

When Parkes lost his seat in the New South Wales parliament earlier in 1882, Edward Whereat – then just elected as the member for Tenterfield – resigned his own seat in Parkes' favour.

Whereat himself explained this extraordinary act of magnanimity by declaring that Parkes "would be listened to with more attention in one moment" than he would be "if he spoke for 20 years".

This remarkable piece of political selflessness exemplifies the spirit that's needed for many of our biggest issues to be resolved.

In an atmosphere of rancid partisanship, few great national questions can ever satisfactorily be decided.

It was in negotiation and compromise, as much as the dogged pursuit of principle that led to our federation and produced our Commonwealth.

The fathers of our federation were often political opponents but they worked together patiently for the greater good, on the understanding that getting something invariably meant giving something too.

The constitution they created over a decade of horse-trading entirely pleased no one but it's served well enough to shape a nation that is as free, fair and prosperous as any on this earth.

Indeed, it's this very readiness to give and take with opponents of good faith; this ability to understand the other person's point of view, and to concede something to it, that has enabled us to resolve differences peacefully and to work more-or-less harmoniously together for more than a century in ways that have eluded less successful countries.

After all – at least in countries like ours – most contention is not between good and evil but between

decent people arguing over the best way to achieve a better outcome.

Any debate about the future of our federation needs the same give and take if it is to produce significant change.

It needs to resemble the kind of measured debate that we can have over national security or about indigenous recognition rather than the debate we've had over the budget for instance or the carbon tax – because reforming the federation is not something that one person, one party or one parliament can determine alone.

Because it involves numerous governments of different political persuasion, reforming the federation will require people from across the usual political divides and from different levels of government to work together over an extended period of time.

Rethinking the conventions about which level of government is responsible for the delivery of particular services or the revenue measures to which particular levels of government should have access will require a readiness to compromise and a mutual acceptance of goodwill that's rarely achieved in our highly partisan system.

Without a measure of consensus, any change requiring legislation is unlikely to secure parliamentary passage and the whole exercise could turn out to be futile.

Without an element of consensus, any change that's actually achieved could be reversed at the earliest opportunity and therefore hardly worth doing.

But, reforming the federation does matter, it is worth trying to achieve and this Government is determined to make the case for change.

What's needed now is not a final answer but a readiness to consider possibilities, to engage in debate, and shoulder our collective responsibility for making our country all that it can be.

When Parkes gave his celebrated address in this very room 125 years ago – the address that is now taken to have galvanised the federation movement – his main focus was the self-evident benefit of one national army and one national rail gauge.

As we know, our country has now had a national army for more than a century; and a standard gauge railway line has linked our mainland capitals for fifty years.

The problem, then, was to create a nation from six colonies.

The problem now, is to create a more rational system of government for the nation that we undoubtedly have become.

It's to realise, if possible, the self-evident benefits of less waste, less overlap, less duplication; it's to end the blame game by trying to ensure that voters know who's really responsible for the things they don't like; and it's to harvest the multi-billion dollar benefits in better services and lower costs that would come from successful reform.

Lack of “big bang” reform would not be a disaster but it would be a disappointment and it would be a failure of this generation of politicians.

The Australian people, deep down, could actually prefer the messiness and ambiguity of our current arrangements because they make it harder for governments to change what we’ve learned to live with.

The federation we have – for all its flaws – has spawned a vibrant democracy, a strong economy and a cohesive society that millions of migrants have chosen to join.

And the federation is being reformed – incrementally – all the time: through the agreements that the Commonwealth and the states make, or decline to make with each other; and the unilateral decisions that all governments make that impinge on the role of other governments.

Reform of our federation will happen. Either we will have organised reform or ad hoc reform, it will be cooperative change or it will be coercive change. But change will come and I say let’s manage it together.

After all, asking ourselves “what can be done better?” is at the heart of all progress.

We would be failing in our duty not to consider better management of the “dog’s breakfast of divided responsibilities” that characterises this Australian federation today.

It’s not entirely dysfunctional – our country couldn’t succeed if it were – but it’s plainly not optimal either which is why reform is worth striving for.

A hundred years ago the states were clearly responsible for funding and operating public schools, public hospitals, public transport, roads, police, housing and planning.

Under our constitution, the states are still legally responsible for them but a century of encroachment has left the Commonwealth financially responsible for vast services that it doesn’t actually deliver and can’t really control.

After two decades of “cooperative federalism” and any number of agreements at Council of Australian Government meetings, we still have tradesmen who cannot operate across state borders because their qualifications are not automatically recognised in other parts of Australia.

Yet there is hardly a problem that doesn’t produce calls for “national leadership” and there are few challenges the states face which don’t generate calls for Commonwealth financial help.

We do tend to see ourselves as one country rather than a collection of states and instinctively we want our governance arrangements to reflect that.

I was health minister between 2003 and 2007 and the practical experience of trying to make a coherent system from out-of-hospital Commonwealth-funded treatment, on the one hand, and largely state-funded public hospital treatment, on the other, turned me from a philosophical federalist into a pragmatic nationalist.

In those days, debate over public hospitals that the states ran but the Commonwealth funded was a constant game of pass-the-parcel with each level of government blaming the other for the system's shortcomings.

Many conditions would indeed be better treated outside public hospitals; but that would mean the Commonwealth rather than the states funding them – so funding arrangements rather than public health considerations could end up driving policy.

Now, all of this hasn't stopped the provision of truly world class health services: yes, people often wait longer than they should for elective procedures or pay more than they would like for them; still, the common sense and decency of treating professionals and the pragmatism of health administrators in the field mean that for most people, most of the time, it works tolerably well.

It would be better if one level of government was responsible for funding all health services – but that would mean the Commonwealth giving Medicare, the PBS and aged care to the states; or the states giving public hospitals to the Commonwealth.

Either the states would lose relevance or well-respected national service provision would be fragmented.

And so we go on, with the states providing public hospital services that the Commonwealth part-funds; the states complaining that the Commonwealth is short-changing them; the Commonwealth complaining that the states are using that as an excuse. And the people complaining that no one really knows what's going on.

In 2005, sick of the financial straitjacket imposed by the Commonwealth-state health care agreement, the Beattie government in Queensland sought to charge a co-payment to public hospital patients.

The Howard government, in which I served, refused to amend the Medicare agreement; it was a regrettable denial by the Commonwealth of one state's attempt to be an adult government.

Now I remain a pragmatic nationalist – but the states exist, they have wide powers under the constitution and they can't be abolished; so – rather than pursue giving the Commonwealth more authority over the states, as I proposed in my 2009 book, *Battlelines* – better harmonising revenue and spending responsibilities is well worth another try.

Back then, my thinking was that the states should become subordinate legislatures to the Commonwealth: in a parallel to the way local councils are subordinate to the state governments.

But I now doubt that any such constitutional change could succeed; and, in any event, it's a good principle to propose the smallest change that will actually tackle the problem – that's why resolving the mismatch between what the states are supposed to deliver and what they can actually afford to pay for is worth another go.

That's what my colleagues and I meant when we said repeatedly, before the last election, that we would launch a federation reform white paper was meant to make each level of government more "sovereign in its own sphere".

Collectively, the Australian states currently spend about \$230 billion a year but raise only about \$130 billion from their own taxes; of the rest, about \$54 billion comes from the GST, a tax that the Commonwealth collects but the states spend; and a further \$46 billion comes directly from the Commonwealth under specific purpose payments or national partnership agreements.

The Commonwealth, for obvious reasons, is focussed on expenditure restraint so that taxes can come down and the economy can grow; the states, for their part, know that their various services have to keep up with greater demand and better technology.

Can a more rational and better managed system be devised; or is change more trouble than it's worth?

Is it inevitable that Commonwealth spending restraint will produce more user-pays arrangements in state institutions?

Or, preferring a reorganisation between governments to a fight with the public, can the Commonwealth and the states better align their revenue with their spending?

To address "vertical fiscal imbalance" we could either adjust the states spending responsibilities down to match their revenues, or we could adjust their revenues up.

The first approach involves the current spending responsibilities being redistributed so that the Commonwealth would take on more and the states would deal with less.

It wouldn't necessarily mean the Commonwealth taking over responsibility for delivery of functions currently carried out by state and territory Governments.

Nor does it imply a "one-size-fits-all approach" to service delivery.

It could lead to a situation where funding for such services was delivered through an individual entitlement supplied through a market – along the lines of the NDIS.

Alternatively, the Commonwealth could stop funding programmes in areas of state responsibility and stop using its financial power to influence how the states deliver services.

In that case, the Commonwealth would be ready to work with states on a range of tax reforms that could permanently improve the states' tax base – including changes to the indirect tax base with compensating reductions in income tax.

Then there's the issue of "horizontal fiscal equalisation" which is supposed to give each state and territory a similar capacity to provide public goods and services.

It's basically about giving everyone 'a fair go' – but it has to be fair to the states making the financial contributions as well as to those receiving them, to those who give as well as those who receive.

It should be possible to make these arrangements more equitable between the larger states with the smaller states no worse off.

So this federation reform process is proceeding in parallel with a tax reform process which makes this a once-in-a-generation opportunity for all first ministers, all levels of government to address the issues bedevilling our federation.

Together, the Commonwealth and the states should be prepared to look at all our existing taxes to make them lower, simpler and fairer.

Might the states be prepared to accept responsibility for broadening the indirect tax base; might they be prepared to surrender some of their responsibilities to the Commonwealth; might there be new funding formulas that wouldn't solve the blame game but could at least give it a new and more realistic starting point?

At this stage, no one should be asked to play the "rule in or rule out" game, because that's guaranteed to generate fear rather than hope.

This government is determined to avoid anything that increases the overall burden of tax.

We're not going to have a pointless fight sponsoring change that the states aren't even prepared to consider – because, if it's to happen properly, reform of the federation has to be owned by the states as well as by the Commonwealth.

The steering group for the White Paper – the reform process – it includes the heads of all first ministers' departments and the ALGA CEO.

Initial discussions about the scope and timing of the Federation Reform white paper dominated this month's COAG meeting.

The states and territories have begun preparing their initial submissions. Before the middle of next year, but after the upcoming state elections, it's my intention to meet with all the premiers and chief ministers solely to discuss reform of the federation.

I anticipate a green paper in the second half of next year and the white paper in the run up to the election so that its work can inform the proposals that this Government decides to take to the people.

Tonight, I announce a further group to guide and test the public servants' work comprising: former South Australian Labor premier John Bannon, former Victorian Liberal treasurer Alan Stockdale, Vice Chancellor of the Australian Catholic University, Greg Craven, Business Council CEO, Jennifer Westacott, former Western Australia Attorney-General Cheryl Edwards and Queensland Public Service Commission Chairman, Doug McTaggart.

The fundamental test that all parties and all levels of government will face over the next year is this: are we prepared to have a rational discussion about who does what; or do we think that the current arrangements, perhaps with some adjustments at the edges, are the best that can be managed under the circumstances?

Either way, it will be good for our system: we will end up with a more rational division of authority and responsibility; or we will be forced to stop complaining about a system that we're not prepared to

change.

Either way, we will have grown as a country.

Inevitably, this reform process will test the mettle of all Australia's first ministers (and indeed alternative first ministers): obviously it will test our willingness to compromise as well as our determination to pursue important objectives; it will test our capacity to reconcile a local perspective with the national one, both of them important; and it will test our readiness to overcome institutional self-interest because this can't be about us – it has to be for our country.

For all of us, this will be quite a challenge – but it's worth doing to see whether and to what extent we're up for it.

Our duty, our solemn duty is to leave behind a greater nation – now let us rise to it.

We heard earlier this evening the words of Sir Henry Parkes in this very hall calling us to rise to the greatness that was the United States of America. Well, that's a different country, this is a different time. Nonetheless, we should put no limits on what we can achieve and surely in this great Commonwealth of ours it is possible to achieve a better system of government than we currently have.

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