



LEADER OF THE OPPOSITION THE HON KIM C BEAZLEY MP

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**ADDRESS TO THE
ECONOMIC AND SOCIAL OUTLOOK CONFERENCE
MELBOURNE
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MODERN FEDERALISM: BEYOND STATES' RIGHTS AND STATES' WRONGS

Can I start by congratulating the Melbourne Institute and *The Australian* newspaper for a great forum. And for choosing this topic for the fourth Economic and Social Outlook conference.

You're right on the money. Asking the right question: How do we seize the opportunities of a once in a lifetime resources boom - how do we make the boom pay?

How do we make sure Australia doesn't squander the opportunities for the nation that our kids and grandchildren will inherit?

I want to pick up where I left off in April last year, when I spoke about economic reform.

I stand by every word of what I said. About Labor's history of taking a tough, unprejudiced approach to reform. And Mr Howard's history of neglect and short-sighted ideology.

I spoke about a first wave of reform in the 80s, when we opened Australia up. Floated the dollar. Reformed tax. Deregulated industries.

And about a second wave in the 90s, when we got productivity to record levels. The blowtorch of national competition policy. The shift to collective enterprise bargaining. Super for all Australians. Reforms that have paid rich rewards since the early 90s.

Today I want to build on all of that. And talk with you about the reform agenda we need now. The reform Australia needs so this doesn't become a hollow boom. The vision we need today, to build tomorrow's modern, competitive economy.

Today I want to focus specifically on Commonwealth/State relations and economic reform.

I've heard a lot of things said about federalism in my time. Almost none of it funny. But there's a joke that the great journalist Paul Lyneham used to tell about an international conference on saving the dwindling elephant population.

After a long conference teams were assigned to write reports for their national governments to waken them to the urgent task of saving the elephant.

Apparently, the British came up with 'Elephants and Empire – One Thousand Years of Glory'. The Germans had: "The Training and Discipline of Elephants". The Americans wrote 'Raising Elephants for Profit & Freedom'. And from Australia? "Elephants – Federal or State Responsibility?"

Well, buckpassing between the Commonwealth and the States isn't a new problem. But it has reached absurd heights in recent years.

No wonder the BCA's study on *Reshaping Australia's Federation* this week described our federal system as "chronically blurred and confused" and suffering from a growing "lack of transparency and accountability". That's why we need what Steve Bracks has called the Third Wave – a National Reform Agenda.

Today I want to build on his thoughtful contribution.

My message to you today is this: Australia needs a *Modern Federalism* to tackle the challenges of a new era. A *Modern Federalism* that can meet head-on the challenges of lifting productivity and workforce participation. Nation building *Modern Federalism*. Focused on outcomes, delivering results. A healthy, high skill workforce. The best opportunities for our kids. World class infrastructure. Lower carbon emissions. A modern, flexible and fair industrial relations system.

This is my vision for a modern, competitive economy. An economy that harnesses the talents and toil of all our people. An economy reformed, so we get productivity growth back on track. An economy reformed, so there's downward pressure on interest rates. An economy reformed, so we can pay our way in the world again, and tackle our skyrocketing foreign debt. In short,

an economy that rewards the families of middle Australia for their efforts. So when they put in, they get back.

Beyond States' Rights and States' Wrongs

Friends, let me outline my vision for my *Modern Federalism*.

Cleaner lines of responsibility. Lean, accountable government that gets results. Future thinking, not finger-pointing. It can only be delivered hand-*in*-hand with the States. Hand-*to*-hand combat just won't do the job.

After 10 long years of the Howard Government, it's clear: John Howard's federalism has failed.

To me, the States are partners. Labor or Liberal. Partners in economic reform and nation building. To John Howard, the States are his political football. Always there for a lazy kick when anything goes wrong.

His style, when he's confronted with problems, is to deny them. Climate change. The skills crisis. Infrastructure.

He denies reality until the polls start turning against him. Then he shifts his position. Cynically. Reluctantly. He concedes the problem and you can hardly blink before you hear him cranking up the old blame-the-States routine. And his solution: always more power for Kirribilli House.

He never puts his hand up for more responsibility. But he always reaches out for another power grab. Just look at the recent debate about the national curriculum.

Now I'm not saying the States get everything right. They don't. But it's bizarre and unreasonable that John Howard and Peter Costello always find them at fault. And often for problems that days before they said didn't exist.

Australians are sick of the buck-passing and blame-shifting between the Commonwealth and the States. They want leadership. They want responsibility. They want results. And they haven't been getting it.

History's verdict will be this. John Howard's federalism failed. Failed to tackle Australia's challenges. Failed to seize special opportunities. Failed to lay foundations for future prosperity.

Friends, a Beazley Labor Government will be different. Nation building, not buck-passing. Tackling problems, not tackling the States. Australia's future, over partisan politics.

Modern Federalism means a new era of Commonwealth/State cooperation and accountability.

I'll need all shoulders to the wheel as I take the reform cart forward. As I go about nation building to meet the productivity challenge. And as I put in place my Pact with Middle Australia, to lift participation.

Right now, all the States are Labor States. That's a good thing. But that might change. And I would miss any Labor Government. But I won't put party loyalties ahead of the national interest. I'll work with any Liberal premier who wants to build a modern, competitive economy. I've done it before. Working with John Fahey back in the 90s to build a national training system. The national interest, ahead of sectional and political interests. Productivity, participation, prosperity my focus – not party politics. That's my vision for Australia's *Modern Federalism*. Working with the States, to deliver on my economic reform plan.

The Reform Challenge

As Prime Minister, I will seize the opportunity of this moment in history to achieve lasting reform and lock in future prosperity.

Right now, Australia is enjoying incredible good fortune. It's estimated that this year, the global resources boom is adding \$55 billion to Australia's national income – almost \$3,000 for every Australian. This has given the Commonwealth an amazing windfall.

Saul Eslake from ANZ Bank estimates that over the last four Budgets and through the forward Budget estimates, the Commonwealth has received a revenue bonanza of \$263 billion due to parameter variations caused by the resources boom. This boom might be a resources 'supercycle' that last years. It might end abruptly. It might peter out. We don't know. But we know it won't last forever. Some time, the boom will end. We just don't know when.

The challenge our nation faces is this: How do we build a nation we're proud to hand to our kids and grandkids?

How we do prosper, when even now - despite a once-in-a-century terms of trade boom for the resources sector – we're not paying our way in the world economy, we're still buying imports on credit and breaking records with our current account deficits and soaring foreign debt?

What's our strategy for Australia's future prosperity, in a tough global economy that's being transformed by the rise of China and India?

My answer is this: We've got to make Australia competitive again. We've got to come up with better ideas, faster, get them to market and find customers.

We're a trading economy, but Australia imports far more than we export. We have one of the world's highest foreign debts.

As the Treasury itself has recognised, Australia can't keep running such enormous current account deficits and escalating foreign debt levels.

The solution is, we've got to sell goods and services the world wants to buy.

Our big resources exporters are carrying more than their share of the load. But we need more – more Australian businesses that can take on global markets.

We've got to move up the value chain in resources, agriculture, manufactures and services. To build a high skill, high tech, high wage economy. More Cochlears and ResMeds. More Hardy's and Southcorps. More Computershares and Mincoms. This requires innovation. Smart workers. Advanced infrastructure. Competitive regulatory settings.

In economic terms, we need a sustained focus on the twin challenges of lifting productivity and participation. A plan that will make Australia competitive again, in an intensely competitive global economy.

Modern Federalism is crucial to my productivity and participation reforms.

The reform agenda that begins at the macroeconomic policy level – with fiscal discipline.

The flood of tax revenues from the resources boom has let spending off the leash in recent years. But I've been around long enough to know these conditions won't last.

That's why, despite these good times, we've laid down Labor's strict Budget Rules. A commitment to keep the budget in surplus, and not to increase taxes as a share of our economy.

Every one of Labor's spending decisions will be subject to these conditions – surplus budgets and no increase in the overall tax burden. That means we'll be keeping spending on a short leash.

Our spending priorities will be shaped by our reform priorities. That means taking the proceeds of the boom and investing them in Australia's future prosperity. Not squandering the unique opportunity the boom has given us.

Since I last spoke here I've released eight policy Blueprints, laying down our reform agenda for productivity and participation.

We'll focus on lifting participation with strategies that we've laid out in Blueprints on childcare, children's health and training Australians.

We'll send the message to hard working Australians that when they put in, they'll get back. Industrial relations, kids' health and childcare policies will focus on making it easier for mums and dads to manage work and family life.

We'll focus on reigniting productivity growth with strategies we've laid out in Blueprints on national infrastructure; training Australians; developing the Australian fuels industry; and igniting a new era of business innovation.

With world class infrastructure, a high skilled workforce and cutting edge businesses, we can get productivity growth back on track.

Investment in these priorities would truly make the boom pay. Lifting productivity growth and participation rates. So Australia can take on the world's best and win.

Modern Federalism: Reward for Results

Those are my reform priorities. Achieving better outcomes on skills, infrastructure, innovation, childcare, health and climate change.

And my *Modern Federalism* will play a central role in getting those outcomes. *Modern Federalism* where the Commonwealth and States work together. Responsible and accountable for results. Moving beyond old debates and the buck-passing and blame-shifting. Beyond the view that the Commonwealth must never step over the line and interfere with States' rights, or the view that the Commonwealth is always right. We've got to move beyond these views of States' rights and States' wrongs.

Frankly, I'm not interested in ideological debates about federalism. Those aren't the issues families worry about at the kitchen tables of Middle Australia.

What they do worry about is their kids having good teachers and the opportunity to get a decent education or a trade skill. Getting decent health care for the kids and their ageing parents. Not spending their lives in traffic jams.

I'd rather focus on reforms that deal with these issues. And that's what you'll get from a Beazley Labor Government. A fresh wave of reform to build a modern, competitive economy.

As Steve Bracks has said, we must reform our governments and the relationships between the tiers of government. We need a Third Wave of reform.

And Steve has made a terrific contribution in getting the Council of Australian Governments to embrace his National Reform Agenda. Today I want to build on his input.

The lines of responsibility and accountability between levels of government must be cleaner.

At the moment, some jobs are done twice – by different levels of government – creating overlap, red tape and confusion. Other tasks aren't being done at all, because of blame-shifting and buck-passing.

John Howard seems to be always either pointing the finger at the premiers or grabbing more power for Canberra.

My *Modern Federalism* offers more sophisticated approaches.

But I'm not afraid to say that better accountability will put the weights on my State colleagues too – so if they get something wrong, they'll know it's their responsibility to fix it. That's what *Modern Federalism* is about.

Modern Federalism will pick up some useful ideas from Steve Bracks' National Reform Agenda. Boosting competition. Slashing government red tape. Building human capital. Important priorities. But above all, reward for results.

My *Modern Federalism* will fund State and Territory governments for achieving outcomes, not just running bureaucracies.

- I will use the independent new body, the proposed COAG Reform Council, to drive this process.
- I will work with the Premiers and Chief Ministers to set targets. We'll develop action plans that will set out agreed commitments, and related progress measures, actions and milestones.
- Performance against these plans will be reviewed by the Reform Council, independently of governments.
- A share of Commonwealth funding to the States and Territories will be determined on the basis of those reviews.
- And in office, I'll work with the Premiers and Chief Ministers to determine what the share of that funding will be.

This is what my *Modern Federalism* is about. Sharing the costs of reform. Sharing the benefits of reform. And making sure hard reforms aren't delayed.

I will use this reform framework to drive my reform agenda. To drive education and skills outcomes. To drive health care outcomes. To drive carbon emission reductions and renewable energy outcomes. To drive water outcomes. To drive innovation outcomes. I will provide the national leadership. I will be a nation building prime minister.

I know the Commonwealth will have to make tough decisions and get better outcomes, as well as the States.

States must accept more accountability. But the Commonwealth must also be accountable for its own outcomes in areas of shared responsibility.

The Commonwealth must also accept independent processes. So the States can have some confidence the system won't be driven by Canberra's political agenda.

Until we get a Prime Minister who'll put national interests ahead of partisan interests, the reform agenda won't move forward.

John Howard likes to talk about reform, but when it involves him giving up power – rather than getting more – his heart's not in it.

My *Modern Federalism* means both the Commonwealth and the States accept accountability. And accountability doesn't mean more bureaucracy. Real accountability focuses on results. Not inputs, process and endless reporting requirements.

Too much of the Howard Government's funding requirements just add layers of bureaucracy and paperwork, instead of focusing on outcomes.

This is precisely the point that's made in the Business Council of Australia's report this week and in the Allen Consulting report on federalism released earlier this year.

The OECD, the Productivity Commission and the Business Council have also stressed the need for a roadmap for reform, with clear timetables and performance indicators.

I will set agreed outcomes, let the States make their own choices about how they achieve them, and hold them accountable for the results. This is how I will lead. And you can hold me to account for it. This is the heart of my *Modern Federalism*, and it's central to how I will deliver my agenda. That's why I'll sit down with the premiers, Labor or Liberal, to work through the tough issues and reach agreement.

My *Modern Federalism* will boost national income and Commonwealth tax revenue. And that's a bounty that should be shared among everyone who puts in.

The State and Territories won't lose out if they put their shoulders to the wheel.

If we reform our system of government, we can deliver much better value to the families of Middle Australia.

Labor's Agenda for Modern Federalism

Let me now go one step further, to set out how my *Modern Federalism* will apply to my priorities in Government. How greater cooperation and accountability can deliver better outcomes.

I want to discuss the key priorities of climate change, health and skills. I also want to make some brief remarks on industrial relations, infrastructure, and child care.

Let me start with the issue that's dominated national debate recently: climate change.

Australia cannot afford delay or denial on climate change. Immediate action on climate change is an environmental and economic imperative.

What's needed is urgent, decisive national leadership. The States have been pressing their faces at the window, wanting to get in on the act.

Already, in the absence of Commonwealth leadership, the Australian States and Territories have been designing an emissions trading scheme that would allow Australia to participate in a multimillion dollar carbon market - while minimising the impacts on regional areas and trade-exposed, energy-intensive industries. But it's very hard to get that scheme up and running, while the Commonwealth stands in the way.

Commonwealth/State cooperation is crucial to the reform agenda I set out earlier this year in my Climate Change Blueprint.

Central to that plan is a national greenhouse emissions trading scheme. Creating price signals that give long-term incentives to cut emissions and provide a mechanism for trading.

I will ratify Kyoto, so Australia can join the global emissions trading market. A market that is doubling in size every year. That was worth \$22 billion in 2005. Emissions trading could pour billions of dollars into struggling rural communities. Last week, the Climate Institute calculated that our farmers could earn \$1.8 billion in the first five years of an emissions trading scheme.

And I will work with the States to implement a significantly higher Mandatory Renewable Energy Target, and set clear targets for reducing carbon emissions.

Second, let me turn to education and training. I will work with the States to invest in training the next generation of Australian workers.

We will set agreed outcomes for lifting standards and achieving outcomes, including:

- New national teaching standards and nationally consistent curriculum standards.
- Investment in better trade facilities, and increased sharing of facilities between TAFE and schools.

- Establishing national recognition of apprenticeship qualifications and national competency-based standards, plus consistent standards for training practices to clean up the rorts in the New Apprenticeships Scheme.
- Providing a nationally co-ordinated system of senior secondary schools allowing schools to specialise, specifically in trades training and in science and technology.
- Funding standards-based pay loadings to keep the best teachers in the classroom, and appoint outstanding professionals in highly disadvantaged schools.
- Agreeing on TAFE tuition fees for traditional trades and childcare courses, to be paid through Labor's personalised skills accounts for students enrolling in those courses.
- Lifting completion rates for traditional trade apprenticeships, including through Commonwealth-funded cash bonuses paid to apprentices at the half way mark and end of their course.

I will use the significant funding the Commonwealth provides as a major lever to drive change and achieve outcomes.

And we'll give universities the freedom to diversify and pursue higher standards. That's why we'll establish a strong Commonwealth/State Higher Education Quality Agency, as detailed in the universities White Paper I launched recently.

Third, let me turn to health care. Health care makes up for almost one in every \$10.00 spent in our economy. Health outcomes are important to workforce participation and quality of life. But in itself, the health sector is important. Improving accountability in the health care sector will improve productivity in the Australian economy. And a more productive, efficient health sector will be better able to cope with the massive future challenge of rising chronic disease rates.

I will make the partnership between the Commonwealth and the States a priority of my *Modern Federalism*.

Nowhere in our economy are the problems of cost shifting and duplication more evident – such as the number of aged care and mental illness patients occupying acute care hospital beds.

This cost shifting and duplication costs Australia billions of dollars. Billions of dollars that could be spent delivering better health outcomes, or pushing out the frontiers of new medical research.

I'm committed to tackling long-term health sector reform. I will use the next round of Health Care Agreements in 2008 to drive major reforms. I'm not talking about some sort of Canberra takeover of every local hospital in Australia.

But shifting to a single public funder for health care is on my reform agenda.

It's attractive, because it could reduce duplication and waste, and create the right incentives for proper investment in prevention and primary care. It's not the only option, but it deserves debate and consideration.

Alongside that, we must do more to integrate private hospitals with public health care. Private hospitals are an invaluable national health resource, and they could play a much greater role – such as in training health professionals.

Australia's health system simply won't cope with its future demands unless we get Commonwealth and States, public and private sectors working together more efficiently.

Finally, in my other Blueprints and policy announcements, I've outlined how I'll work with the State and Territory governments to achieve national goals in the national interest.

In childcare, I'll work with State governments to put childcare centres on primary school grounds. That way, we can end the dreaded 'double drop-off' of kids at school and childcare centres.

I'll also work with the States to strengthen quality standards in childcare, and simplify licensing and accreditation requirements.

On infrastructure, I'll establish a peak national agency called Infrastructure Australia – to audit our infrastructure needs, set priorities and get projects on the move.

The States will have a permanent and central role in Infrastructure Australia, and Infrastructure Australia will be a permanent item on the COAG agenda.

In industrial relations, my Government will use all the powers available to it under the Australian Constitution, for the purpose of legislating a modern, flexible and fair industrial relations system. We know that whatever the High Court decides, some employees will still be covered by State systems.

I know I can only build a truly national system if I work with the States – with options like uniform Commonwealth/State legislation or harmonisation.

Under no circumstances will I ride roughshod over the States, like John Howard.

Future Thinking, Not Finger Pointing

Friends, a Commonwealth government committed to economic reform for our future can do a lot, but if it works productively with the States, it can do much more. That's why I'm committed to *Modern Federalism*. Lean, accountable government. Clearer lines of responsibility. Future thinking, not finger-pointing.

What it really means is this: Better schools. Better services. A healthier population. Less congestion. And less red tape.

To move on from the blame game, we must get beyond old debates about States' rights and States' wrongs.

Australia has a historic opportunity. To make the boom pay for lasting reforms.

If we seize this moment of possibility, we'll deliver more accountable and responsible government for the families of Middle Australia. And help build a high-skill, high-wage, modern and competitive economy.

This is my vision for *Modern Federalism*. Government doing a better job. Reward for results. Rewarding families who do the heavy lifting and make our economy strong. And a modern federal system that makes a stronger Australia. A nation better able to handle the challenges and opportunities of the future.

Thank you.