

Too Content to Change?

Australia Day Address at ...

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Today we celebrate the birth — and toast the future — of our nation and reflect on our progress. My focus, here, is on Australia's very short history, our economic success and our national character.

These three good things combine, in a surprising way, to pose a challenge that is worrying many Australian families and that we need to address.

The Australian character is slow to change. Features that were exceptional a century ago are still so. Perhaps, its a mark of our contentment. We change only when we cannot avoid it.

Even the foundation of our nation that we celebrate today took longer than our histories say. In the third quarter of the 19th century — a hundred years after the settlers arrived — a nation became possible. Successive gold discoveries swelled the capital stock. Steam transport and the telegraph bridged the colonies' mutual isolation. Still, there was only modest popular interest. The first referendum on Federation failed.¹ The second succeeded but with support from a minority of the population.

Then, federation of the colonies did not make a nation. Those grainy photos of the rotunda in Centennial Park, shading the top-hats and crinolines, tell the story. What was born in 1901 was a 19th century idea. The new Commonwealth was not a nation so much as a pillar, albeit remote, of European Empire.

¹ Details of the two referenda are available from the Australian Electoral Commission at: http://aec.gov.au/About_AEC/Publications/Fact_Sheets/factsheet1.htm

And so we stayed through the Great War and Depression until, finally, events out of our control made the Australian nation irresistible.

We can see the irony of it now. It was our Asian geography forced the change.²

Only after the fall of Singapore to Japan in 1942 did our national story really begin. In that year, the Australian Parliament enacted the British Statute of Westminster that had granted its constitutional independence, eleven years earlier.³ National taxes were first levied in the same year; four decades after the Constitution made them possible. It was not until 1954 that Australia officially abandoned the British Union flag and adopted the naval ensign behind me as it's

² H. V. Evatt, then Attorney-General in the Scullin Government, was chiefly responsible for the adoption of the Act. Similar bills had been introduced twice in 1937 by R. G. Menzies as Attorney-General, but they received so little priority that they lapsed at the end of the Parliament without being considered.

The support the bill received in 1942 was not unanimous: there were lingering doubts among conservatives whether the middle of a war was the right time to cut the "threads of empire". New Zealand did not enact the Statute of Westminster until 1947. But the shock of the Japanese conquest of Singapore and the desire to reassert Australian strategic control of Australian forces were strong motives.

Still, it seems that Evatt's (and the Scullin Cabinet's) "proximate" reasons were less prosaic. They related to a lurid case of homosexual murder on the cruiser *HMAS Australia*, then our chief capital ship, in March 1942. A Court Martial convicted two naval ratings (stokers) of the crime after considering evidence that — although likely to be true — was not strictly admissible. They sentenced the men to hang "from the yardarm" under the provisions of the Royal Naval Discipline Act of 1862. Thanks to Menzies' transfer of exclusive naval authority to Britain early in the war, this antiquated British statute governed the Australian warship at the time. The Scullin cabinet was dismayed when Evatt told them that Australian authorities (the Naval Board) had no power to commute the sentence unless they broke the British link. See: Clark, C "The Statute of Westminster and the murder in the HMAS Australia, 1942", *Australian Defence Force Journal*, 179:2009 Jul_Aug 2009, pages 18 - 29.

³ The text of the "Statute of Westminster Adoption Act, 1942" is recorded in the 39th Parliamentary Handbook. See: <https://web.archive.org/web/20080520090259/http://www.aph.gov.au/library/handbook/constitution/westminster-act.htm>.

national signal.⁴ No serious attempt was made to adopt a national anthem until the ABC radio network staged a series of competitions in the 1940 and 1950s; the choice of *Advance Australia Fair* was eventually proclaimed in 1984, seven years after the plebiscite that approved it.⁵

It was our parents, returning from war who founded a wealthy, urban, self-assured and original nation. They were the first generation whose gaze turned back to these shores to find an Australia of the popular imagination.

Still, the exceptional aspects of our national character — beliefs and habits so strong with us we don't see them as unusual — are not our parents' doing. We inherit some of them even from colonial times.

One was what Geoffrey Blainey calls “regulationism”;⁶ the unusual prominence in all spheres of Australian life of bureaucracies, statutory agencies, independent commissions and authorities and, today, even state-funded sports and arts administrations. Another, was the idea of the “fair go”; which Donald Horne, in the early '60s, explained is usually about money.⁷

⁴ “The Flags Act, 1953”, was the first Act of the Australian Parliament to receive the direct assent of the reigning monarch during her visit to Australia on 15 April, 1954. See <http://ausflag.com.au/history.asp>

⁵ The full history can be found at <http://www.australia.gov.au/about-australia/australian-story/austn-national-anthem>

⁶ Blainey, G “Australian Exceptionalism” in Coleman, W. O. *Only in Australia*, Oxford University Press, 2016

⁷ Horne, D *The Lucky Country*, 6th ed. (2005), Penguin Books. Chapter 2.

A third exceptional characteristic of Australians was perhaps the ancestor of both these. This was an idea of equity, or maybe entitlement, that shapes much of our thinking.

Our great economic historian, Sir Keith Hancock observed as long ago as 1930 that from colonial times Australians treated the Crown as a “vast public utility”.⁸ They expect government “to provide the greatest happiness to the greatest number.” “Every economic difficulty,” he wrote, “is generalised as a political issue.” Also, by demanding that the political system adopt ends for which it inevitably lacked the means, “Australian idealism has put too many of its eggs into the political basket”, ensuring that “government, being constantly overstrained, is constantly discredited.”

Nearly ninety years later, how true that sounds, still. Hancock's “vast public utility” is failing under immense pressure.

Of course, the extent of our calls on the public purse is not due only to our character. Australia’s population has grown 40% in the last 30 years⁹. Our expectations have risen too if only because, in our lifetimes, the real average income of Australians has grown more than fourfold.¹⁰

⁸ Hancock, W. K. *Australia* (1930), Ernest Benn, London. Quoted in “*Tocqueville, Hancock and the sense of history*”, Ergas, H, (2015) reproduced in Coleman, W. O. op cit.

⁹ Philip Lowe (Deputy Governor, RBA), “National Wealth, Land Values and Monetary Policy”. 54th Shann Memorial Lecture, August 2015. Accessed at: <http://www.rba.gov.au/speeches/2015/sp-dg-2015-08-12.htm>

¹⁰ Novak, M., Talimanidis, D. “*Things Are Getting Better all the Time: a snapshot of Australian living standards in the long run*” (2014), Institute for Public Affairs, Melbourne (ipa.org.au). From about \$15,000 p.a. in 1948 to more than \$66,000 p.a. in 2013, in real terms. See p.12 and Figure 6.

Also,, our governments have in many ways *earned* their discredit. They have failed, for a decade now, to manage our affairs prudently. They have squandered billions of public funds on panics, hunches, vanity projects and purchasing the praise of their own tribes. The rise in net debt has been so steep that the Treasurer last month used an accounting sleight-of-hand to hide it from the international credit rating agencies.

In state-managed markets — many of the most important to Australian households including urban land-supply, energy, health, water, education, and even childcare — prices have risen much faster than the general price level for decades while outcomes and service-levels barely keep pace or have fallen.¹¹

We have limitless supplies of coal and gas, yet our electricity prices are among the highest in the world and supply is failing in one state.¹² We have a continent for our home, yet poor urban land supply makes our housing among the most

¹¹ Data on the index of prices in these markets compared with the CPI, from the Australian Bureau of Statistics, is presented in Novak, M and Talimanidis, D. *Op Cit*.

¹² Not if you listen to the power-generation industry who assert that on a “purchasing power parity” basis, Australians spend only about the (OECD) average amount from their overall consumption basket on household energy supply. But for commodity price comparisons, market exchange rates are a better representation of prices and trends across borders. These show that (in 2011) four Australian states figured in the top six places for household electricity costs out of 91 comparator countries.

“Electricity Prices in Australia: An International Comparison: A report to the Energy Users Association” available from <http://www.aph.gov.au/DocumentStore.ashx?id=52040ade-8c93-4292-a50c-c8ce93c8236c>
Furthermore the rate of increase in electricity prices in Australia has been much faster than in comparator countries. Prices for households increased on average by 72% for electricity and 54% for gas in the 10 years to June 2013, according to the Parliamentary library (http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook44p/EnergyPrices)

expensive in the world.¹³ Our education system is one of the world's best-funded, yet high-school students' scores are lower today than a decade ago.¹⁴

We're not facing calamity. As Adam Smith said, that there is great deal of ruin in a nation.¹⁵ Also, we've many good reasons to remain optimistic about Australia's growth prospects.

¹³ See The Economist international price comparisons (and charts) at <http://www.economist.com/blogs/dailychart/2011/11/global-house-prices>. Australia has not only the highest prices in real terms but also the fastest rate of increase in prices. The Economist (like the IMF) concludes that Australian house prices are "40% overvalued". There is a variety of reasons for the high valuations due to the nature of the local market, including the impacts of financial deregulation in Australia after the 1980s. But significant contributing factors have been direct government subsidies to first-home buyers and a persistent poor record in urban land development by State and regional governments. See: Kirchner, S "Eight Housing Affordability Myths", Centre for Independent Studies (2014) available at: http://www.institutional-economics.com/images/uploads/ia146_-_Eight_Housing_Affordability_Myths.pdf

¹⁴ At competitive market prices, shorn of the subsidies and administered prices, Australian tertiary tuition is at the top of the price ranks among comparator countries. See the HSBC bank's international price comparisons at: <http://www.about.hsbc.com.au/news-and-media/australia-the-most-expensive-country-for-education-hsbc-report> For tuition alone, only the United States has a higher (\$USD) average charge.

The relatively modest achievements of Australian students in the international PISA tests, when compared to students from China, Singapore, Europe etc. have been covered at length by the media. Inter-national comparisons are not always what they seem. Still more telling is the continuing decline in scores when compared with *Australian* results of a decade ago. These results show a monotonous decline in science, reading and mathematics scores over the period 2000-2015. See <https://www.theguardian.com/australia-news/2016/dec/06/pisa-results-australian-students-science-maths-and-reading-in-long-term-decline>

¹⁵ Smith made his laconic observation in correspondence with Sir John Sinclair in 1777. It concerned the climactic battle of Saratoga in which American revolutionary forces decisively defeated the British army under General Burgoyne. See John Rae's *Life of Adam Smith*, available at: <http://www.econlib.org/library/YPDBooks/Rae/raeLS22.html>

But we cannot count on luck to remedy characteristic faults. That was Donald Horne's point. We will have to overcome our practiced constitutional inertia to put our nation on a sounder footing.

I don't mean a republic; the nature of the crown is, at present, only a distraction as it seems even the Prime Minister knows.

To cut the waste and improve the accountability of government, we must address, first, the Federal tax and spending mess; the subject of many studies in the past decade.¹⁶ A powerful remedy that does not need constitutional change would be to reverse, at least in part, the "uniform tax" decision taken in 1942. The unintended consequence of this wartime measure has been today's stultifying complexity and inefficiency in Federal-State financial agreements.

In brief, we would be wise to keep expenditure decisions in those big domains of state control I have just mentioned as close to points of delivery as possible. But

¹⁶ The most recent discussion of Australia's long-standing "vertical fiscal imbalance" was the work of the 2014-15 *Federation Reform Task Force* of the Dept. of Prime Minister and Cabinet. The Task Force was shut down by Mr Turnbull before it made a final report in 2015. Its draft discussion paper is, however, available at: <http://apo.org.au/taxonomy/term/6045> The most important related document is the Task Force "*Issues paper No. 5 (Finance)*", also available at: <http://apo.org.au/node/56126>.

These papers are, however, only the latest in a long series of high-level reports and analyses of the serious efficiency and accountability problems we have brought on ourselves in the struggle for revenue and spending control between the States and Commonwealth. Other notable studies are:

Twomey A and Withers G, "Federalist Paper No 1: Australia's Federal Future. A Report for the Council for the Australian Federation" (2007). Available from: <https://www.caf.gov.au/Documents/AustraliasFederalFuture.pdf>

Productivity Commission, "Productive Reform in a Federal System", Roundtable Proceedings (2005) available at <http://www.pc.gov.au/research/supporting/productive-reform>

we must require the governments that are answerable for expenditure to be responsible for finding the revenue, too.

This reform — that needs little justification beyond good accounting practice — has been mooted many times without result. No government has had the self-interest to enact it. Just last year, in reply to a poorly-prepared suggestion by the Turnbull government, the States again declined to accept such accountability.¹⁷ Conservative centralists warn that it would lead to greater policy variance among the States.¹⁸ But that might be a good thing. In any case, our mounting debts and the dissatisfaction of taxpayers and consumers may at last force us to make a change that is long-overdue.

Australians' contentment probably explains our slowness to change. This sunny afternoon, in this lovely garden argues there's no fault in being content. But it's not the same thing as the pursuit of happiness.

¹⁷ See <http://www.abc.net.au/news/2016-03-30/coag-states-territories-could-levy-income-taxes/7283232>. Mr Turnbull's "thought bubble" on redressing the fiscal imbalance was easily rebuffed by the State governments.

¹⁸ For example, former Prime Minister, Bob Hawke argues we should "Scrap States to Drive Reform". See *The Australian* newspaper, January 1, 2013 (<http://www.theaustralian.com.au/in-depth/cabinet-papers/scrap-states-to-drive-reform-bob-hawke/news-story/fa14e11372aa2a1f5dc19497780d4e26>). Hawke's radical centralism faithfully echoes a Labor Party platform first adopted in the 1920s when the Labor appointments to the High Court (Higgins, Isaacs) were doing their best in e.g. *The Engineers Case* to extend the central controls of the Commonwealth and to erode the State's "reserve powers" doctrines of the early federal bench. See:

Brown, A. J. "*The Constitution We Were Meant to Have*" (2005) a paper in the Department of Senate occasional lecture series, available at <https://www.aph.gov.au/binaries/senate/pubs/pops/pop44/brown.pdf>