Labor, Government Business Enterprises and Competition Policy

Murray Goot

Long before the introduction of federal trade practices legislation or tariff reform, governments in Australia – especially Labor governments – attempted to reduce the costs or improve the quality of goods and services by establishing government business enterprises. With the rise of neo-liberalism industry policy of this kind all but disappeared. According to the National Commission of Audit (NCA), established by the Howard Government, there were only three circumstances in which Government Business Enterprises (GBEs) could be justified: when ‘the private sector was seen as incapable of delivering the required products or services’; when ‘the community considered it appropriate that government should own a firm that operated as a natural monopoly’; or when ‘the government wanted to fulfil a community service obligation’. This article offers a historically-grounded critique of the NCA’s position. It traces the history of GBEs as a spur to competition across the states and the Commonwealth. It shows that what counts, or doesn’t count, as a government’s ‘core activity’ is as much a matter of politics as it is of economics, and it locates the politics of the NCA within the broader neo-liberal project of limiting collective choice.

In its 1996 Report ‘on aspects of the management and financial activities of the Commonwealth Government’, the National Commission of Audit (NCA), didn’t mince words about government business enterprises (GBEs – also known as state-owned enterprises, government trading enterprises and government-owned enterprises) – certainly not in relation to those that could ‘be operated successfully by the private sector’ or those for whose existence there was ‘no public interest reason’. Apart from ‘market failure’ or the need to ensure ‘social equity’, democratically elected governments should not own businesses. The NCA’s concerns were clear: ‘Commercial activities distract a government’s attention away [sic] from its core activities’; ‘There are difficulties in putting a government-owned organisation in a position of competitive neutrality with the private sector’; and ‘Conflicts of interest can occur where a government owns a corporation and regulates its activities as well as those of market competitors’.

The NCA conceded that, once upon a time, there had been good reasons for governments becoming involved in commercial operations: ‘the private sector was seen as incapable of delivering the required products or services; the community considered it appropriate that government should own a firm that operated as a natural monopoly’; or the government wanted to fulfill a community service obligation’. Now, however, it was ‘not clear’ that there continued ‘to be valid reasons for government ownership of businesses. Private markets had matured and could provide many services provided by GBEs, natural monopolies could often be managed better through regulation, and community service obligations could be met through a tendering process and explicit budget funding rather than through hidden cross subsidies’. Moreover, ‘[c]ommunity expectations about what governments can do and how they should operate’ had ‘changed since the 1970s and 1980s’.
absence of ‘clear’ reasons for holding on, the NCA was keen to see governments divest. It noted the sale of Qantas and the Commonwealth Bank, under Labor; and the commitment of the new Government to the sale of one-third of Telstra. But from the Commission’s perspective this hardly went far enough. At a minimum the Commonwealth ‘should review the need for continuing government ownership of all GBEs’. The job of the government, it declared, was not to own businesses; its business lay in ‘specifying the rules and the results required’ – a gesture, perhaps, to competition as both process (rules) and outcome (the avoidance of monopoly).

A few years earlier, reflecting on the ‘Thatcher Revolution’ for a Sydney audience, the Cambridge economist Bob Rowthorn argued that the claim that privatisation was designed to increase efficiency was ‘nonsense’. The only public enterprises sold off by Thatcher had been profitable, efficient, enterprises – enterprises made profitable and efficient before they were sold off. The real aim of the ‘revolution’ was not economic but ‘fundamentally political – to discredit the idea of public ownership and create such a highly privatised and fragmented economy that socialism, as traditionally conceived at least, becomes virtually unthinkable’.

Even if that was not part of the NCA’s vision – and Rowthorn concedes that nowhere else was privatisation ‘pursued with anything like the single-mindedness witnessed in Britain during these years’ – two things need to be said about the NCA’s account of Australia’s past and its prescription for the country’s future – the more so because its main assumption of an antithesis between a commitment to market forces and support for GBEs was already widely accepted by neo-classical economists, key bureaucrats, media commentators and the major parties, and because its report provided ‘a source of authority for later actions’ when privatisation in Australia became ‘a rush’. One has to do with its grasp of political history, particularly the economic reasoning which at various times has underpinned state ownership of business enterprises in Australia; the other, with its attempt to pass off the axioms of market liberalism as politically neutral rules of state.

The History of Government Business Enterprises as a Spur to Competition

The kindest thing that might be said of the NCA’s account of the origins and history of government business enterprises in Australia is that it is completely undocumented and radically incomplete. It is true that in the course of Australian history a number of government businesses were established precisely because the private sector was judged incapable of delivering the required goods or services (railways and the ABC are two examples), because there was deemed to be a natural monopoly (e.g. the water supply), or because the government needed to fulfill what are now known as ‘community service obligations’ (for example, telephone lines in all parts of Australia installed at a uniform cost). Much historical writing has focused exclusively on state enterprises of this sort.

But it is also true that the rationale for a large number of state enterprises was neither the incapacity of the private sector to provide the goods or services nor the existence of a natural monopoly. It was not even the need to fulfill a community service obligation that drew governments into the field – though for enterprises like the Commonwealth Bank, considerations of this kind played a part in the way they developed. Rather, the rationale for many GBEs had to do with a number of quite different things: public opinion, with its preference for ‘popular control’ of economic
resources – even at the cost of efficiency; the opportunity that direct involvement afforded the government to get an insider’s view of how state regulation worked – or could be made, by private businesses, not to work; the government’s interest in tackling corruption, protecting its citizens from engaging in crime, and combating tax avoidance; and, above all, the opportunity it offered to protect the interests of consumers in fields where private enterprise on its own generated insufficient competition.

While it didn’t have the field to itself, the party most likely to champion GBEs – and not just state monopolies – was Labor. Portrayed by its opponents, from early on, as a party that ‘denounced’ competition ‘of every kind … as a public evil’, Labor did more than any other party to talk up GBEs as the key to introducing or enhancing competition.

The Commonwealth Government

At the national level, the list of government-owned enterprises established at one time or another to generate more competition is impressive: the Commonwealth Bank, set up by the Fisher Labor Government in 1911; the Commonwealth Shipping Line, established in 1917 by the Nationalists under Billy Hughes, and by 1923 accounting for ‘more than a third of Australian (and New Zealand) gross tonnage’, the Commonwealth Oil Refinery, mandated by Hughes’ Nationalists in the early 1920s, and the acquisition in the early ‘20s, again under Hughes, of the majority shareholding in Amalgamated Wireless (Australasia) Ltd with a view to ‘offering keen competition to the older cable and telegraph services’; the decision of the Labor Government, during World War II, to establish another shipping line and to acquire half and then all the shares in Qantas Empire Airways; the decision of the Liberal-Country Party Coalition, after the war, to hold on to Trans-Australia Airlines in competition with both Australian National Airlines and Ansett, when it was ‘thwarted by public opinion and many newspapers, which had come to realise that this competing public enterprise had “run rings” around its major private rival’; the establishment, by the Fraser Government, of Medibank Private to ensure that ‘reasonable’ rates were set in the health insurance industry; and, more recently, the commitment of the Rudd Government to investing in a broadband network, in which it would be the majority shareholder, to compete with other providers, including a former state monopoly (Telstra) – albeit an investment it is pledged to sell off after five years, a pledge that harks back at least as far as the McMahon Government when it established the Southern Trawling Company Ltd.

In the mid-1950s, Gough Whitlam thought not only that the Constitution would not allow Labor to nationalise any industry; he thought it might restrict the Commonwealth’s right to establish GBEs. By the beginning of the 1960s, however, he was looking forward to a Labor government’s establishing not only new government monopolies (in stevedoring, air transport and coastal shipping) but a number of competitive government enterprises as well: an international shipping line; a government-insurance office; a company to import and refine petroleum; even Commonwealth funded, state-owned, newspapers. In the event, his attempt to establish an Australian Government Insurance Office was thwarted by the insurance industry, his Petroleum and Mineral Authority was stymied by the Senate, and his Australian Newspaper Commission torpedoed by his Party.
Lamenting Labor’s privatisation of ‘key government assets’ (Australian Airlines, Qantas and the Commonwealth Bank), under Bob Hawke and Paul Keating, Clyde Cameron, a member of the Whitlam Government, recalled how each had been ‘set up to provide genuine competition to private companies which would otherwise cooperate with each other to defraud the public’. In defence of the decision to privatise TAA, Peter Walsh, a former minister in the Hawke and Keating Governments, shared a similar concern – the need for state enterprises to deliver goods or services at a lower price – but came up with a quite different assessment of their performance. What is striking is not that a common starting point did not lead these two protagonists to the same conclusion, but how the terms in which their opposed views were expressed fall outside the desiderata for GBEs the NCA laid down.

The States: New South Wales and Queensland

More numerous than the wholly-owned enterprises established by national governments have been those established – or simply acquired – by state governments, particularly in New South Wales and Queensland. Generally, these were Labor initiatives undertaken mostly, though not exclusively, from the early 1910s to the late 1920s. Their significance goes well beyond their number, the period in which they were established, or their political sponsorship. In 1920, it was three government business enterprises in Western Australia that gave rise to the Engineers’ Case, a turning point in Australian constitutional law. In 1922, it was the Ryan Government’s frustration with the Parliament’s refusal to let it enter the mining business that was largely responsible for the abolition of the Queensland Legislative Council. And, in more recent years, not least at the state level, the privatisation of various enterprises has been partly responsible for the Labor Party, in particular, having to rethink what government is about.

In New South Wales, several enterprises were established early in the twentieth century to supply government departments or state institutions: a clothing factory, established by the Protectionists at the behest of Labor; a Drug Depot, established in 1917; and the Rozelle Joinery Works, acquired almost inadvertently by Labor in 1912, are all examples of that. Bob Parker’s account of public enterprise in New South Wales stresses the small-scale, non-competitive, nature of many of the state business undertakings, at least in their early days. The origins of these enterprises, he insists, bore little or no relation to Labor’s platform or propaganda – the need to tackle ‘trusts and combines’ that ‘raise prices’ or the need to attack ‘monopoly profits’ generated ‘at the expense of workers’.

But most state-owned businesses in New South Wales either had a broader mission to start with or acquired one – the better to compete with privately-owned business. The Rural Bank (originally, the Rural Department of the Government Savings Bank; subsequently, the State Bank), established by Lang Labor in 1931, is perhaps the best known of these and certainly the longest lived. But it is far from being the only state government enterprise of importance. The state brickworks set up by the McGowen Labor Government at Homebush in 1911 and Botany in 1913 was a major force in the building industry for many years; in 1915-16 its annual output had already exceeded 38 million bricks and by 1928 it was selling 60 million bricks a year, nearly 80 per cent to private customers. In 1912 a Housing Act was passed that
allowed the state ‘to build houses to reduce the housing shortage and bring down
the rents’ – long before the 1945 Commonwealth-State Housing Agreement turned
New South Wales and other states into home builders on a big scale; Daceyville
in Sydney, named after the Treasurer, was built ‘as a model working class suburb’
under the Housing Act and by 1976, ‘40 per cent of the 125,461 dwellings built by
the Housing Commission since 1945 had been sold’. The McGowen government
opened three metal quarries and a state lime works at Botany and Taree. The Holman
Labor Government, in office from mid-1913 to the end of 1916: acquired the State
Monier Pipe and Reinforced Concrete Works; bought a flour mill and established
a state bakery, which eventually delivered bread all over Sydney; introduced three
fishing trawlers; and opened six fish shops, five in Sydney and one in Newcastle.
It either established, or acquired, timber yards and building workshops, a building
construction plant, a power station, a coalmine, a dockyard and a motor garage. In
the interests of competition it even intended to establish an iron and steel works; it
abandoned this idea in favour of helping BHP set up its own steel works at Newcastle.
Soon after taking office, Holman noted that ‘of the twelve ventures’ undertaken
by the state, ‘nine were paying their way’. His Nationalist colleagues, he said,
had agreed that rather than sweep them away ‘each of them would be considered
absolutely on its merits’. Far from disposing of state-owned businesses, the Holman
Nationalist Government added to them. It extended the fishing fleet and created
sawmills at Craven and Gloucester. When Fuller’s Nationalist-Progressive Coalition
came to power, in 1922, it reinstated the position of Minister for State Industrial
Enterprises, abolished by the Dooley Labor Government, but it disposed of five state
tree enterprises – the bakery, the trawlers, the sawmill in Gloucester and its Newcastle
sale yard, the timber yards and its neighbouring power station at Uhr’s Point; and
it ‘removed from the competitive field’ three others – including, the motor garage.
The brickworks, ‘proudest achievement of the McGowen Labor Government’, were
sold by the United Australia-Country Party Government in 1935; the Monier pipe
works and metal quarries were sold in 1936. 

Under the McKell Labor Government, a state dockyard was established, the
brickworks were re-established, and the Government Insurance Office re-vamped
so that it could compete for general insurance with private firms. In his 1941
policy speech, McKell also promised to establish municipal abattoirs and produce
markets ‘to break the grip of the Flemington Czars’. Nearly 50 years later, both the
brickworks and the GIO, along with the State Bank, were privatised by the Greiner
Liberal-National Party Government.

The list of state enterprises set up at various times in Queensland is even more
impressive. Indeed, ‘[i]n the 1920s’, according to Peter Groenewegen and Bruce
McFarlane, ‘Queensland probably had more State enterprises than any other country
outside the USSR – a fact which alarmed both Governor Nathan of Queensland and
the British Government, lest other colonies follow suit’. In 1915, the Ryan Labor
Government established the first retail butchers’ shop in Roma Street. In 1918,
there were 28 state-owned butchers’ shops; by 1929, just before Labor lost office,
45; later, there were as many as ninety. So as not to be ‘cornered’ by producers, the
state eventually acquired 17 cattle stations as well – though by all accounts these
were the least successful of its ventures. The Ryan Government also took over the
leases on railway refreshment rooms; by 1929, the state was operating forty-nine.
The Queensland Government acquired a trawler, opened a wholesale fish outlet, and in 1917 established the first of seven fish shops – including one, in 1920, in what would one day be Pauline Hanson’s stronghold of Ipswich. There was a State Government Insurance Office, seven saw mills, six coal mines and an arsenic mine, iron reserves, several large smelting works, petroleum bores, ships, a hotel in Babinda, plant nurseries, a produce authority, a fruit cannery, cold stores in Hamilton, and a treatment works.33

Reflections

‘Nationalisation is now the most difficult and least important aspect of socialism for an Australian government to achieve’, Gough Whitlam declared in the early stages of his quest to modernise the Labor Party. The hallmark of a socialist government, he insisted, was not its commitment to public monopoly but its focus on public enterprise – whether at the state, national or (via joint ventures) international level. ‘Public enterprise is not only the best but probably the only means of now staving off or counteracting private monopoly in Australia or providing continued competition where there still is competition’.34

Others had also included competitive, state-owned, enterprises as an integral part of their socialist vision. Writing in the 1920s, the Guild Socialist, Vere Gordon Childe, contrasted the New South Wales experience of ‘state capitalism’ with Queensland’s experience of ‘state socialism’. In New South Wales, he argued, government enterprises were run in the interests of capital; set up to generate profits, state-owned businesses had effectively reduced the tax burden that would otherwise fall on capitalists. In Queensland, on the other hand, government enterprises offered better working conditions, the government had sided with the union during strikes, and the enterprises had been designed to benefit consumers; lower prices were passed on to customers.35

There are, to be sure, government enterprises – or at least ways of thinking about such undertakings – which have nothing to do with enhancing competition. For the Right, these include the sorts of enterprises that the private sector needs but cannot run at a profit; these are the GBEs for which the NCA has some residual regard. For the Left, the list of enterprises that should be government owned has always included some the private sector runs – or could run – at a profit. Where the idea of competition is regarded as either phony or exploitative, public ownership and nationalisation rapidly become indistinguishable.36 However, where governments are committed to competition it is difficult to see why public sector participation should be ruled out. The NCA may not have wished to concede the point but other tough-minded proponents of competition policy have been prepared to do so. Arguing that the Australian Postal Commission (as it then was) should be freed from government control and allowed to offer whatever services it wished, Robert Albon conceded that the Commission could remain publicly owned: ‘If it could survive under these circumstances, well and good. If not, it would not matter very much’.37

Under Andrew Fisher the idea of the state as a competitor was pushed one step further: not only was the Commonwealth Bank to compete against the private banks, it was to compete against the state banks. Defending the establishment of the Commonwealth Bank, Fisher questioned the bona fides of his conservative critics who were ‘always thundering in favour of private enterprise and private competition, and
deprecating the coddling and protecting and sheltering of persons or institutions’.38
Indeed, an effective and efficient competition policy may not require the participation of private firms at all. In a paper written as an intervention in the debate about the future of the Overseas Telecommunications Corporation and what was then Telecom, Rowthorn argued that both the ‘theoretical arguments and empirical evidence’ underpinning the view that ‘genuine competition’ is only possible if private firms are included are ‘weak or non-existent’.39

In recent years, the experience of state enterprises has often been written out of large-scale Australian histories – whether thematic, narrative or documentary.40 For a generation, much of the free market Right as well as the interventionist Left seem to have forgotten the history of state intervention not as a way of stifling competition but as a way of encouraging it.41

**The Ineluctably Political Nature of the Government’s ‘Core Activities’**

In arriving at its recommendations, the NCA adopted what it called a framework of ‘common sense principles’. The first of these ‘principles’ was to ‘Assess whether or not there is a role for government’. The government had a role: (a) where there were ‘social or equity goals that the community wants to pursue’; and (b) ‘where, in the absence of government involvement, the actions of private individuals would result in ... insufficient or excessive production of certain consumer commodities’. If there was a role for government, the next thing was to decide the appropriate level of government at which the role should be carried out. The third thing was to ensure that the relevant tasks were conducted in line with ‘best practice’ with program beneficiaries given ‘choice’, governments acting as funders of services not providers, and service delivery being ‘as competitive as possible’.42

These three principles – their scope, their meaning, and their justification – the NCA took as largely unproblematic. While conceding that ‘[d]ecisions about Commonwealth Government involvement are for the government of the day’, the NCA failed to acknowledge that the ‘role’ or ‘core activities’ of government – and, conversely, anything characterised as a ‘distraction’43 – is in principle if not in practice a matter for contention. Thus, when F.A. Bland delivered a paper on government enterprises to the Sydney Branch of the Economics Society in the late 1920s, ‘the discussion’, he recalled, ‘almost exclusively revolved around the question whether the state ought to embark upon activities other than those which are essential to the existence of the organised community’. ‘Naturally’, he reported, ‘agreement was impossible, and attempts to apportion the field of enterprise between the State and its citizens disclosed even wider divergencies [sic] of opinion’.44 Notwithstanding the hold privatisation now has on the economics profession, a paper on the nature and scope of GBEs delivered today might still be expected to generate some disagreement – witness the division in the profession over the idea of recreating a ‘people’s bank’ to replace the privatised Commonwealth Bank45 – as would any discussion, in the 1870s, involving W.E. Hearn and David Syme, on the benefits of competition;46 or, in the 1940s, between Noel Butlin and Heinz Arndt, on the one side, and perhaps L.F. Giblin or Wilfred Prest, on the other, over the merits of nationalising the banks.47

The NCA cloaked its prescriptions for economic reform with an appeal to ‘common sense’. But a commodity of this kind isn’t hard-wired; it is a creature of beliefs and values – and of the way issues are framed. In politics ‘common sense’ is
typically contested. In the 1940s, C. Hartley Grattan was hardly alone in believing that the state’s involvement in ‘water supply, forestry, fire protection, harbour operation, etc.’ were not ‘debatable’ but ‘inevitable’ areas for Government activity’. Yet the 1940s also saw Hayek’s *The Road to Serfdom* printed in Australia, the defeat of the Chifley Government, and the Menzies Government threatening to sell ‘socialist’ enterprises. In the 1980s, when the Institute for Public Policy was advocating privatisation, the Evatt Foundation was warning that ‘Privatisation’s proposed solutions to the problems of the public sector often result in the creation of new and worse ones’. If the NCA described its own prescriptions as matters of ‘common sense’, opponents of the NCA’s reasoning were equally prepared to invoke ‘common sense’ in defence of their own positions.

To say that the NCA’s views about the appropriate scope for state action are contentious is not only to say that its judgments are matters for dispute among economists and others; it is also to say that its views are readily identifiable ideologically, have a long political history, and go to issues that have divided the major parties quite sharply – regardless of how ‘pragmatic’ or ‘non-ideological’ the parties’ reasons for wanting to establish GBEs or be rid of them. Anyone who doubts this need only consider: ‘the battle of the banks’ in the late 1940s; the subsequent sale, under Menzies, of the Government’s shares in the Commonwealth Oil Refinery, Amalgamated Wireless (Australasia) Ltd., Tasman Empire Airways, the Commonwealth Engineering Company, the Bell Bay Aluminium Project, the Australian Whaling Commission and the Joint Coal Board; the fight over Medicare in the 1970s, or, in the 1990s, the privatisation of Telstra.

‘The question of the balance between the public and private sectors’, as the Vernon Committee observed, ‘is not decided in the market place; rather it is decided at the polls’ indirectly if not directly. What is true nationally is also true of the states. ‘It is almost certain’, Parker remarked of the development of GBEs in New South Wales, ‘that a non-Labour government would not have established most of these enterprises’. Those enterprises ‘which successfully competed with private enterprise incurred the implacable hostility of the successive non-Labour parties, even though their principal effect was to reduce the cost of government’.

If the major parties, today, are committed to privatisation, it is for one or more of three very different reasons. First, judgments about whether GBEs, measured against certain economic criteria, are better than, or no different from, private businesses. Economic considerations of this kind interest economists most but probably interest politicians least; for one thing, they involve calculations that easily bamboozle non-economists – the more so as: the businesses to be privatised may not be the whole business but component parts or sub-processes; the difference between privatisation and something that stops short of privatisation (for example, a 99-year lease) becomes more difficult to draw; and as the process of contracting out services, regarded by some but not by others as ‘real’ privatisation, gathers pace. Second, there are the parties’ commitments to particular political values – including the value of individual over collective provision; private versus socialised profits; and accountability via the market in preference to accountability through parliament, through various ‘monitory’ mechanisms, to use John Keane’s word, or through the ballot box. And third, there is the small matter of the parties’ electoral calculus – their judgments about what they can – and should – persuade voters are in their interests, individually
or collectively. The real reasons for their actions, of course, may be quite different from their pitch – the opportunity privatisation provides for: shifting the blame for price increases on to the private sector, especially where price-increases are likely to be front-page news; being able to claim benefits, however misleading, to the budget’s bottom line; avoiding the need to cut public expenditure or increase taxes; and so on. ‘There seems to be no single or simple common pattern of motivation for privatisation’, Ken Wiltshire observes, ‘between any two countries’.63

That the NCA’s judgments should not be seen as merely managerial is underscored by the other reasons it gave for wanting to limit GBEs. It emphasised, for example, ‘competitive neutrality’ so that ‘firms competing in the same market’ did not face ‘different regulatory or other requirements’.64 Thus, in matters of ‘remuneration, inefficiency and termination procedures, and other employment conditions’, the fate of Commonwealth employees ‘should be left to the same industrial relations processes that apply in the community more generally’.65 Yet any government that saw itself as an industrial pace-setter, as the Whitlam Government did; or that saw itself as a ‘model employer’, as the Queensland Government once did and as the New South Wales Labor Party under Holman did,66 would not necessarily share this view. Nor is it clear why it should. If better terms and conditions in the public sector – equity enhancing practices, for example – put pressure on private enterprise is this necessarily a bad thing?67

Again, according to the NCA, the state should not be in a position where, as a regulator, it might be involved in a conflict of interest: ‘Referees shouldn’t be players as well, and vice versa’.68 While the issue of ‘political interference’ in the operations of GBEs has a long history, three things might be said about the NCA’s take. First, the analogy assumes the state is a single entity; in fact, the state as player (GBE) and the state as referee (regulator) are separate entities and the state can work to keep them apart by structural means (the use of statutory corporations, an Australian innovation, and, more recently, by corporatisation)69 and by other means, including the development of political conventions.70 An important assumption of public choice theory, that players (here, GBEs and regulators) pursue their own interests, might have been used by the NCA as one ground for thinking that each player would fight for its independence not collude. Second, even where there is a conflict of interest it’s not obvious why, in matters of collective welfare, this consideration should trump all others. Braithwaite notes that ‘evidence from both the US and Australia is compelling that while abuse and neglect is common in government and charitable nursing homes, it is much more so in private nursing homes’. Here, state regulation stands some chance of lifting private sector standards; simultaneously, by being a player, the state can widen consumer choice.71 Third, given the risk of ‘regulatory capture’, another concern of public choice theory – or of ‘a reverse regulatory capture’, where the legislator is ‘captured’ by the regulator72 – one might wonder why the state should so structure its affairs that only private businesses stood to benefit whenever regulatory regimes were subverted or their raison d’être reversed.

**Inducing Competition in the Future, Learning from Competition in the Past**

To legislate for competition is to place the interests of consumers on at least a par with the interests of producers; that is, on the same level as the interests of capital and labour. For most of our history consumers have been placed ‘low in the scale of
priorities’ and legislators acting in ‘the public interest’ have frequently proscribed competition.\textsuperscript{73} If one wants to break with history, it is pertinent to ask: what sorts of policies have induced competition in the past and what sorts of lessons does that experience hold for the future?

\textit{Inducing Competition}

Governments of whatever stripe have three ways of generating competition: by removing trade barriers, thereby exposing the market to outside pressures; by legislating against monopoly and restrictive trade practices; and by introducing either private sector players or state-owned enterprises to challenge the dominance of existing firms – be they public or private. There is nothing new about any of this.\textsuperscript{74} What has changed, since the 1970s, is the perceived need for more competitive policies and the political will to introduce them.

When the Whitlam Government decided to cut tariffs across the board by 25 per cent, lowering trade barriers was the government’s principal means of inducing competition from outside. The Hilmer reforms were designed to complement these changes by tackling those sectors of the economy that were sheltered from international competition.\textsuperscript{75} A continuing program of tariff cuts, and attacks on other forms of protection, have furthered this goal.

Legislation against monopoly has a much longer history, but not an altogether inspiring one. In the early 1960s, Alex Hunter described attempts by Australian governments to control restrictive trade practices and monopoly as ‘dismal’. Legislation in most states had been introduced to control prices and profits, but ‘real effort’ had remained ‘spasmodic’ and the effect on business behaviour had been ‘negligible’.\textsuperscript{76} Federal legislation, introduced in 1965, was widely judged to be ‘inadequate’ or ‘unsatisfactory’.\textsuperscript{77} By contrast, the 1974 Trade Practices Act, ‘the most important piece of business legislation’ of the last ‘century’, brought ‘qualitative change in business attitudes and market behaviour’.\textsuperscript{78} Nonetheless, the Trade Practices Act ‘is not of itself sufficient to enhance competition when the restrictions flow from government regulations or public ownership’.\textsuperscript{79}

The government’s decisions to terminate the two-airline agreement\textsuperscript{80} and to allow Optus to compete with Telstra are examples of the third strategy at work. Since 1997, telecommunications has been open to all comers. Private players, however, are not the only ones that might stir things up; in principle, GBEs might do the job just as well or better.

\textit{Learning from the Past}

Asked ‘how to nationalise as well as what to nationalise’, Australians ‘should know all the answers’, the political scientist, A.F. Davies, once remarked. After all, he observed, Australian ‘experimentation with forms of public enterprise’ had ‘been as long and varied as any in the world’. But, he added, ‘this rich experience’ had ‘been left almost wholly unanalysed, neglected in fact even more by socialists than by liberals’.\textsuperscript{81} In the early 1980s, a team of economic historians – liberals rather than socialists – who acknowledged the ‘significance in the Australian economy’ of public enterprises and were convinced that virtually ‘no attempt’ had been ‘made previously to study their history’, did some useful work on statutory corporations (sewerage, water and electricity) and government ‘monopolies’, most notably in the areas of
communications and transport. But the political economy of public enterprises of a more competitive kind was outside their brief as it has been for most academic economists in Australia who have written about GBEs.

The ‘rich experience’ of government business enterprises of a competitive kind remains largely unanalysed. Parker, who described his own paper on state-owned businesses in New South Wales as little more than ‘a short preliminary exploration of the field’, thought the topic ‘quite well deserves a book’. Yet it is difficult to find a chapter – let alone a book – that has taken up the idea. Stuart Macintyre, in his history of Australia from 1901 to 1942, dismissed GBEs in little more than a paragraph. For ‘the most part’, he said, they were ‘meant merely[sic] to supply material to government departments more cheaply than private suppliers, and to act as model employers providing optimum pay and conditions for employees’. Their retail activity had ‘little impact’. In his book on *The Labour Experiment* in the first half of last century, he ignores them altogether.

That the NCA failed to do the matter justice is hardly surprising, given its terms of reference and the time in which it had to report. More striking is its failure to notice the questions that might have been asked of the past. Of the comments generated by the report, few raised any of these questions either.

**Conclusion**

The NCA’s blueprint on how governments in general and the federal government in particular ought to proceed suffers from an ideological blind spot. While it identified various reasons why government monopolies had been justified in the past (and might even be justified in the future) it ignored a key reason why competitive GBEs had been set-up in the past and might be maintained, even multiplied, in the future: the need to enhance competition and to prevent the abuses that might flow from either monopoly or oligopoly.

To what extent and under what conditions GBEs have actually enhanced competition is a question that calls for detailed historical study. Of this relatively little has been done, though not as little as historians of Australian economics sometimes imply. Writing in 1927, J.B. Brigden concluded that ‘the production side’ of such enterprises ‘has not been the success anticipated, while the retail marketing appears to have achieved its object’. In the 1950s, Parker concluded that ‘Taking the past and present together, the claim of conservative politicians that State enterprise is inherently inefficient and cannot pay its way is the last accusation that can be levelled [sic] with any show of truth at public enterprise in New South Wales’. It was ‘mere hypocrisy’ for non-Labor politicians ‘to force some of the weaker enterprises into commercial losses in order to provide an excuse for liquidating them’; in office they ‘insisted on selling out the very undertakings that had prospered commercially through thick and thin’. The ‘real reason’ for liquidating these businesses was that ‘they had in fact proved at least as efficient as private enterprise, and more particularly, had made their products available at prices free of monopoly or cartel profits, thus justifying their existence on the very principle to which the business world gave lip-service – the principle of free competition.

A recent, more broadly based, review of GBEs, which looked at hundreds of international studies, concluded: that capital investment had increased in the newly privatised firms and there had been small productivity gains; that improvements on
financial performance were no different from those reported by a control group of companies (or by companies that had been nationalised); that some services were better, a product of effective ‘regulatory and public accountability requirements’, while others were worse; but that while promised price reductions had not materialised, inequality – fewer jobs, higher executive salaries – had increased and low-income consumers had suffered. There is little here that casts doubt on Rowthorn’s conclusion that ‘given the right conditions, public enterprises can be just as efficient as their private counterparts – and often more so’, or John Quiggin’s conclusion that while ‘the merits of private and public ownership’ should be assessed ‘on a case-by-case basis’, privatisation generally ‘reduces the net worth of the public sector’ by an amount that is ‘as large as, or larger than, the sale price’. In terms of their performance, he predicted, ‘some of the privatisations of the recent past will ultimately have to be reversed either through renationalisation or through the entry of new public entrants’.

That ‘community expectations’ of what governments can – or should – do ‘have changed since the 1970s and 1980s’, as the NCA argued, so that GBEs are now less widely supported, is open to doubt; certainly the Report makes no attempt to document its claim. At best, the NCA reaches its conclusion by sleight of hand since even if GBEs are less widely supported than once they were, opposition to privatisation – including the privatisation of competitive GBEs – still appears to be widespread; indeed, it is difficult to find an opinion poll in which the idea of privatising any GBE has majority support. This is quite different, of course, from showing that the parties can’t use poll data as framing devices – as ways ‘of working out how to galvanise support, neutralise opposition or convert those who might otherwise be reluctant to see things the party’s way’. For a variety of reasons, including his underestimating the power of the political parties and his overestimating the power of public opinion, the prognosis offered, a quarter of a century ago, by Hugh Collins – in his celebrated characterisation of Australia as a ‘Benthamite society’ – that the prescriptions of the Right were ‘implausible for any party in office’ because they flew ‘in the face of this society and its values’, now rings rather hollow. But the failure of the NCA to look closely at public opinion is symptomatic of something quite different, for the larger point of reports like the NCA’s is not to enhance democracy as a political project; the point is to restrict it.

Murray Goot is an ARC Australian Professorial Fellow in the Department of Modern History, Politics and International Relations at Macquarie University.

<murray.goot@mq.edu.au>

Endnotes

* For comments on an earlier draft of this article I am grateful to Rodney Cavalier, Rick Kuhn and the journal’s anonymous referees.
2. Ibid., p. x; emphasis added.
3. Ibid., pp. vi-vii.


10. Queensland Worker cited in H.L. Wilkinson, The Trust Movement in Australia, Critchley Parker, Melbourne, 1914, p. 168. A report on the process of privatising New South Wales electricity notes ‘that most of the international players are more interested in the useful information that can be gleaned from entering the data room than in lodging binding bids’; J. Freed, ‘The latest buzz in power privatisation’, Sydney Morning Herald, 18 November 2009.


For Commonwealth GBEs sold in the 1990s, see R.G. (Bob) Walker and B. Con Walker, *Privatisation: Sell Off or Sellout? The Australian Experience*, ABC Books, Sydney, 2000, pp. 20-21. In 1998 the Howard Government converted both the Commonwealth Employment Service (an agency established by Labor in 1946) into Employment National, and the Commonwealth Rehabilitation Service (established in 1941 as the Civilian Rehabilitation Scheme) into the CRS, but this was done to encourage private businesses to compete with (newly established and ready to privatise) GBEs not to create GBEs to enter a field already populated by private businesses.


32. In New South Wales, Railway Pies was the biggest pie company, and the Railway Refreshments Rooms, where rail employees bought their pies at discount rates, eventually became the biggest restaurant chain in the State after the Department of Railways took it over in 1916. I thank Rodney Cavalier and Peter Spearritt for the information. See also, The Railways of New South Wales 1855-1955, Department of Railways, NSW, 1955, p. 295.


37. R. Albon, *Private Correspondence: Competition or Monopoly in Australia's Postal Services?* Centre for Independent Studies, St Leonards, 1985, p. 69.


39. B. Rowthorn, 'Notes on competition and public ownership' Faculty of Economics, Cambridge University, mimeo, nd. I am grateful to Jim Gillespie for this paper. See also the views of other economists: 'Economic efficiency is the result of competition not ownership'; H.M. Kolsen, 'Government-owned enterprises' in J. Nethercote et al (eds), *Decision-making in Queensland Government*, Federalism Research Centre, Australian National University, Canberra, 1992, p. 171; also S. King and R. Maddock, *Unlocking the Infrastructure: The Reform of Public Utilities in Australia*, Allen & Unwin, St Leonards, NSW, 1996, p. 6, who argue that 'performance' is predicted by 'the degree of competition'. Contrast the New South Wales Government's decision to prevent the government-owned Snowy Hydro from bidding for the government's electricity assets because of 'concerns that it would frighten off private investors from bidding and investing in the electricity industry'; Brian Robbins, 'Snowy Hydro shut out of electricity assets sale', *Sydney Morning Herald*, 18 November 2009.


43. Ibid., pp. ix, 24.


52. Of the four discourses on Australian democracy identified by John Dryzek, the NCA’s corresponds most closely to ‘Right minded democracy’ – a label that refers both to its position in left-right terms and the belief among adherents that their view is the correct one for the country; J.S. Dryzek, ‘Australian discourses of democracy’, Australian Journal of Political Science, vol. 29, no. 2, 1994, p. 230.

53. ‘Except in the recent period, ideology has been significant in this process only on rare occasions’; Collyer et al., Privatization and public enterprise reform in Australia, pp. 141, 145. See also, Millar, Socialism, p. 79 and Parker, ‘Public enterprise in New South Wales’, pp. 210-12. That the sea-change in Labor’s attitude after the 1987 election was largely a response to ‘Australia’s recent economic difficulties’, hence pragmatic, see I. Beckett, ‘To privatise or not?’ in J. Halligan and R. Wettenhall (eds), Hawke’s Third Government: Australian Commonwealth Administration 1987-1990, Faculty of Management, University of Canberra and the Royal Institute of Public Administration (ACT Branch), Canberra, 1993, p. 269ff. However, for a critique of the view that Labor is essentially non-ideological, see T. Irving and A. Seager, ‘Labour and politics in Canada and Australia: towards a comparative approach to developments to 1960’, Labour History, no. 71, 1996, pp. 244-47.


59. Parker, ‘Public enterprise in New South Wales’, pp. 210, 212. In qualifying the difference between Labor and the Liberals, Parker was no doubt cognisant of South Australia, where a Liberal Premier had placed the electricity supply in public ownership; see, Crocker, Sir Thomas Playford, pp. 50-55.

60. For an example of the seeming inability of politicians to grasp the budgetary implications of privatisation, see M. Ludlow, ‘Old spin a load of rubbish, say economists’, Weekend Australian Financial Review, 28-29 November 2009. For a nice exposure of the mistakes politicians – and some economists – made in this area, see J. Quiggin, Great Expectations: Microeconomic Reform and Australia, Allen & Unwin, St Leonards, NSW, 1996, ch. 11. That a feared loss of dividends was staying the hand of state governments from privatising in the late 1980s is argued in R. Gerritsen, ‘Microeconomic reform’, in S. Bell and B. Head (eds) State, Economy and Public Policy in Australia, Oxford University Press, Melbourne, 1994, p. 283.


64. F.G. Hilmer (Chair), National Competition Policy, Report by the Independent Committee of Inquiry, Australian Government Publishing Service, Canberra, 1993, p. 293.
65. NCA, Report to the Commonwealth Government, viii.
68. NCA, Report to the Commonwealth Government, p. viii.
71. J. Braithwaite, Markets in Vice, Markets in Virtue, Federation Press, Leichhardt, NSW, 2005, p. 8. For an example of what the authors consider a negative net outcome from putting such conflicts of interest first, see Collyer et al., ‘Privatization and public enterprise reform in Australia’, p. 160.
74. Cf. Wilkinson, State Regulation of Prices in Australia, p. 177.
75. Hilmer, National Competition Policy, p. 11.
79. Hilmer, National Competition Policy, p. 11. The increasing concern of private business with the growth of ‘the regulatory state’, a growth ‘not discouraged by the reduction of government-owned businesses’, is registered in Berg, The Growth of Australia’s Regulatory State, p. 39 for the quote. As Braithwaite notes, the Howard Government’s attempts, in some areas, to both privatise and deregulate landed it in political trouble; Braithwaite, Markets in Vice, Markets in Virtue, p. 9.
85. Groenewegen and McFarlane, in their A History of Australian Economic Thought, make no reference to any work of this kind.


90. J. Quiggin, ‘Privatisation debunked’, Australian Financial Review, 5 November 2009; Quiggin, Great Expectations, p. 159. Quiggin’s position is hardly novel: ‘State conducted activities are so varied in character and have met with such varying success…that any generalisation on their efficiency or advisability is impossible. Each case must be considered carefully on its own merits…No a priori formula can possibly be laid down’; J. Alexander Gunn, Livelihood: Papers in the Study of the Economic Factor for Social Science Students, A.H. Massina & Co., Melbourne, 1927, p. 197 (emphasis in the original). Judging ‘each operation of the government on its individual merits’ was also said to be the view of the public early in the twentieth century; V.S. Clark, The Labour Movement in Australasia: A Study in Social-Democracy, Burt Franklin, New York, 1906, p. 278.


93. For recent poll data, see D. Hayward, ‘The public good and the public services: what role for the private sector?’ Dissent, no. 8, 2002, pp. 8-12. For academic social surveys, see M. Pusey and N. Turnbull, ‘Have Australians embraced economic reform?’ in S. Wilson et al., Australian Social Attitudes: The First Report, University of New South Wales Press, Sydney, 2005, pp. 184-68; and J. Braithwaite, ‘Economic policy: what the electorate thinks’, in J. Kelley and C. Bean (eds), Australian Attitudes: Social and Political Analyses from the National Social Science Survey, Allen & Unwin, Sydney, 1988, p. 27. The level of ‘support’ is not the same, of course, with what will ‘worry the average voter’; see, M. Ludlow, ‘All this must go!’, Australian Financial Review, 11-12 July, 2009, p. 19. Ninety years earlier, an anti-socialist senator claimed GBEs were both ‘the creation of low-grade parliamentary intrigue’ rather than ‘the deliberate expression of public opinion’, which ‘still hold that speculation is the province … of the individual not of the State’, and that the world had never seen ‘such widespread acceptance of state-ownership’ and support amongst civilised people in a new country’; A. St. Ledger, Australian Socialism: An Historical Sketch of its Origin & Development, Macmillan, London, 1909, pp. xi, 129, 139.

94. Goot, ‘Public opinion, privatisation and the electoral politics of Telstra’, p. 215. Collyer et al, observe that ‘it has been easy enough for the conservatives to argue that ordinary Australians’, who don’t like privatisation, ‘do like the idea of tax reductions and that they cannot have it both ways’; Collyer et al, Privatization or public enterprise reform?’ pp. 156-57.