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Howard's Way

THE PUBLIC SECTOR

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While there are some common elements in the economic analysis of the public sector used by both the Keating and Howard governments, the Howard approach is far more damaging. Although its electoral success was due partly to presentation of moderate, "relaxed and comfortable" and even bipartisan policies in some areas, its real agenda is underpinned by an ideology hostile to public sector provision, and more dedicated to reductions in the size of the public sector and privatisation as policy objectives. It also appears increasingly more willing to use media coverage to whip up racism and other fears of "middle Australia" to divide potential opposition and isolate groups like Aboriginals, migrants and the unemployed as a rationale to reduce public expenditure and roll back gains won over the last decade. This has been demonstrated by the calls by the Minister for Social Security for people to report suspected "dole bludgers" and the attacks on ATSIC and Native Title legislation from both Commonwealth and state governments.

Budget Strategy and Social Expenditure

John Howard and the Coalition have followed what has become a well worn strategy for electoral success, practiced by state conservative governments. This consists of little policy detail before the elections, with assurances of no radical change, and then discovery of a budget black hole and use of an Audit Commission after the elections as the justification for slash and burn budget cuts and privatisation.

Cuts: Round One

Pre-election policies were moderate and attempted to reassure the electorate that they had changed from the radical 1993 Fightback policies. Howard promised to keep important aspects of the social wage including Medicare, retain many community services, and maintain the value and main policy framework of key social security payments like child care, aged pensions and unemployment benefits.

However, the Liberals proposed to fund election promises through expenditure cuts of \$6 billion over 3 years (\$2 billion per year).

They claimed that the main employment effect of their budgetary policy in the federal public service would be the loss of 2500 positions which could be achieved through attrition not redundancies. This would result from a cut of 2% in public sector running costs, and a list of other cuts in particular agencies. (This figure was challenged by public sector unions who calculated that the running cost cuts plus the additional cuts in particular agencies which were outlined in the policy could triple this figure. As of May 1996 job losses stood at 8,900, and were not complete.

Cuts: Round Two

After their budget policy was released, the Coalition made much of the fact that the ALP government would not issue revised budget forecasts before the election. The government argued in response that it was too early for revised figures, which vary greatly according to variations in economic growth forecasts. Revised forecasts should only be made closer to the date of the budget in August.

Soon after the election the Howard government released the revised forecasts, which did indeed show a larger predicted deficit, mostly due to lower estimates of economic growth, which reduce tax revenue and increase expenditure on unemployment benefits. The government labelled this the Beazly "black hole" and announced an expenditure review process to achieve cuts or revenue increases of \$8 billion over the next two years, or \$4 billion per year. Various commentators have

estimated that up to \$7 billion of this is due to the lower growth estimates, which are dubiously based (Quiggin, 1996).

Since tax increases have been ruled out, most of this would come from expenditure cuts. This would enable the government to meet a self imposed target of an underlying budget balance in 1997-8 .

The achievement of cuts of an additional \$8 billion over two years would require program cuts as well as cuts in running costs, and has prompted suggestions like abolition of the Commonwealth departments of health and education, and handing these programs entirely to the states. Estimates of possible job losses vary from 10000 to 30000. This is massive pain for dubious economic gain.

Cuts: Round Three

In addition to these cuts, the Coalition foreshadowed a Commission of Audit, similar to those commissioned by conservative state governments, which is likely to discover more "holes" in budgetary arrangements. It will identify unfunded liabilities like superannuation and make recommendations about the accounting techniques used in the budget. It is due to report on 19/6/96

Are Massive Cuts Needed?

The Commonwealth budget is not in crisis. A growing number of commentators have shown the dangers of targeting the budget deficit as an objective in itself (Perkins, 1995). Studies have failed to reveal any causal relationship between the size of the deficit and other policy objectives like increased economic growth or reduced current account deficits. Budget deficits tend to rise automatically when economic growth slows, and fall automatically when it picks up. Governments do have to monitor carefully the size of the deficit, but even the higher current estimates of 1.5%-1.9% of GDP are low by international standards.

The current estimated deterioration in the deficit is mostly due to changes in economic growth forecasts, but it also looks worse because the Howard government is using a different measure of the deficit, called the "underlying deficit", which does not count the proceeds from asset sales or debt repayments from the states. It is argued that these are capital income and should be separate from recurrent income and expenditure. While this is a worthy accounting change, it has the effect of a one off rise in the deficit even if nothing else changes. The proposal to use proceeds from the Telstra sale to fund an environment program, not all of which will involve capital expenditures, somewhat undermines the argument.

It is likely that growth will be greater than the current forecasts, which will mean that this figure will be reduced by higher tax revenues and lower unemployment benefit payments. If this occurs, the "black hole" will disappear.

A further complication is that massive expenditure cuts and job shedding will in themselves slow the rate of economic growth, which in turn will tend to increase the deficit. This is conceded even by conservative commentators (Access Economics, reported in *the Australian Financial Review*, 1/4/96)

Privatisation 1: Asset Sales

The Howard privatisation policy claims private ownership will promote efficiency and makes much of the Thatcherite virtues of widening individual share ownership . .

It claims proceeds from privatisation will be used to reduce debt, not to fund recurrent expenditure. However, the proposed use of Telstra proceeds on environmental policy runs counter to this strategy.

The Howard government will proceed with the sale of the Commonwealth Bank and QANTAS begun by the ALP, and with the sale of ANL, which the ALP government had agreed to restructure rather than sell after a protracted dispute with the maritime union. It will proceed with privatisation of the airports, although it will delay the sale

of Sydney airport pending measures to address aircraft noise. It will also sell AIDC, the development bank which lends money to Australian businesses, which the ALP had withdrawn from sale after it became obvious that loss of government guarantee reduced its value significantly.

The major new initiative in the Howard privatisation policy is, of course, the proposed privatisation of one third of Telstra. The policy was diluted and tied to funding of environment policy during the campaign as a result of polls which showed overwhelming popular opposition to the sale.

The government has pledged not to sell Australia Post, a bipartisan approach based presumably on popular opposition to the sale, especially in rural areas.

Privatisation 2: Government Business Enterprises (GBEs) and National Competition Policy(NCP).

The ALP government set the legislative framework for NCP in 1995. It was intended to ensure competition in all areas of the economy on a consistent national basis. It was strongly supported by the Business Council of Australia (BCA) and conservative economists, especially in Treasury and the Industry Commission, on the grounds that it would lower prices for business. It will also open up profitable areas of public service provision to competition and privatisation, and has been supported by companies interested in those areas of investment. The legislation was strongly criticised by unions and community organisations, who argued it would mean higher prices and worse services for most consumers. They succeeded in getting some amendments which are intended to protect public interest and equity. Both state and federal governments have passed complementary legislation, with substantial payments to the states from the Commonwealth conditional on implementation .

It will mainly affect government business enterprises at state and Commonwealth levels, including water, electricity, gas and public

transport. It will also affect Telecom and Australia Post which have complex regulatory frameworks which will come up for review under the legislation. It could also affect other government agencies like TAFE, whose activities can be defined as business activities, if they are charging for services.

GBEs will face competition in all areas of service provision unless specifically exempted on public interest grounds.

Competition will occur mainly in the profitable business end of the market, where prices are likely to fall. But it will mean full cost pricing for domestic and rural services and erosion of cross subsidies which are said to be inefficient. Cross subsidies now enable some domestic and country consumers to pay prices which are less than the full cost of the service. This will mean price rises for many non business consumers. The Industry Commission Report, *The Growth and Revenue Implications of the Hilmer Reforms*, predicted that competition policy and consequent removal of cross subsidies in Australia would mean water prices for city residential consumers would rise by 20%, electricity prices by 16% and passenger rail fares by 19%, while prices for business users of water, electricity and rail freight would fall (IC 1995: 221 and 336).

GBEs will also have to allow competitors access to their infrastructure, which will mean privatisation of the profitable parts of many services.

Competition policy was also meant to apply to agricultural statutory marketing authorities like the wheat board, sugar boards, etc, which currently have monopolies on purchasing these products to stabilise prices for farmers.

The coalition supported the competition policy legislation, but faced criticism from sections of its National Party constituency during the election campaign because of possible price rises for rural consumers and their objections to the loss of statutory marketing authorities. In response, the Coalition promised to retain cross subsidies and made some specific commitments to retain the wheat and sugar boards, and to retain the local area delivery monopolies enjoyed by newsagents.

The Howard government will face a conflict between these promises and pressure from the Business Council and conservative economic advisers to have as few exemptions from the legislation as possible. If these exemptions are kept it may be easier to mount a case for other public interest exemptions.

The legislation also commits the Commonwealth and states to a review of all legislation and regulation against the test of whether it restricts business competition, and to achieve more national consistency. In the hands of conservative Commonwealth and state governments, this could present opportunities for watering down of public interest legislation in areas like the environment, anti-discrimination and EEO, and health and safety, in the name of reducing anti-competitive burdens on business or achieving national consistency.

Privatisation 3: Competitive tendering and Contracting Out

Contracting involves contractual arrangements with suppliers or contractors for goods and services which cannot be supplied in-house. This has always been an aspect of government activity, and can involve public tendering processes. Competitive tendering is the extension of the competitive process into areas of service delivery previously done by government employees. Contracts are awarded based on competition between potential contractors for the work of delivering services. This can, but does not always, involve an in-house bid by the employees themselves.

Competitive tendering is essentially an attempted cost cutting measure which is initiated in the belief that it compels agencies and employees to reduce costs through bidding on a lowest cost basis. It often results in privatisation of the service, but even when it does not, both services and jobs are reduced. International studies show that competitive tendering reduces employment conditions, mostly through casualisation of the workforce, de-unionisation and use of individual contracts. The most vulnerable groups, including women, ethnic and racial minorities are often most severely affected. A United Kingdom study, for example,

showed that following competitive tendering, women lost most of the gains which had previously been won in their employment conditions. They suffered greater job loss, and loss of key conditions like holiday pay and maternity leave (Ranald, 1995, Whitfield, 1995).

Frequently those who win contracts are large transnational companies with considerable market power, who win them on the basis of claimed economies of scale and scope. They prefer long term contracts, and offer no greater choice to consumers, who now deal with a single private rather than a single public provider. This has been the case in computing and water contracts in South Australia, and in local government contracts in Victoria.

Competitive tendering was introduced in mostly commercial Commonwealth services under the ALP government, which also initiated an Industry Commission Inquiry into it. But the most dramatic moves have come from conservative state governments, which have introduced compulsory competitive tendering of most local government services as in Victoria, or contracted out whole agencies or activities like computer services and water and sewerage services in South Australia.

The Howard privatisation policy states that here are large savings to be made from contracting out, and the Commonwealth lags behind the states in this area. It quotes approvingly from the 1995 Industry Commission Draft Report, *Contracting and Competitive tendering by Public Sector Agencies*, which estimates that up to 30% of administrative services could be contracted out. The final report is due at the time of writing.

The policy does not exclude any categories of services from contracting out.

This policy makes it likely that contracting out in the Commonwealth Public service will be seen as a source of potential savings and expanded into many areas of service delivery. It will also complement the de-unionisation and moves to individual contracts in the Howard IR legislation.

Broad Alliances Needed

If implemented, these policies are likely to result in substantial losses in services and jobs, which will seriously affect living standards and employment levels. These will be combined with the Howard industrial relations policy which includes attacks on employment conditions and unions' rights to organise, and will also reduce living standards. Defeating or modifying these policies will require the development of broad alliances between unions and community organisations to rally community opposition to them.

This will need to be underpinned by criticism and exposure of the budget 'black hole' myth, and credible alternative proposals for a reasonable budget strategy, which retains services and jobs. A good example of this is the proposal by unions and the Australian Conservation Foundation that Telstra be kept in full public ownership and a proportion of its \$1.5 billion annual dividend be used for environment programs. This would provide more secure and permanent funding than one off sale proceeds.

Unions are now mobilising members and formulating industrial campaigns to resist cuts and privatisations.

Unions, community organisations, women's organisations, churches and service users groups will also need to form alliances and run public education campaigns about the effects on services. Of paramount importance will be broad-based public campaigning against racism and in support of funding for Aboriginal services, and services to immigrants, both of which are under threat. Only broad and united public action can defeat the appeal to racism and other forms of prejudice which will otherwise divide and weaken the movement and reverse decades of work towards social justice.

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Corrections

The editors apologise for some minor errors in the printing of Patricia Ranald's article on National Competition Policy in the previous issue of the Journal. The necessary corrections are below.

- Page 4, paragraph 2, the first sentence should read:
The initial draft of the agreements did not contain objectives for the legislation, which would have related them to other government policies like social justice and environmental policy.
- Page 5, paragraph 1, the first sentence should read:
Application to business activities which are part of other government activities.
- Page 19, paragraph 1: the date should be 22/11/95.