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Dunstan Oration: Institute of Public Affairs Conference

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OUTLINE DUNSTAN ORATION - IPA CONFERENCE FRIDAY 14TH  
AUGUST

- 1 Limitations of public consultation. - cite Hackney experience
2. Assumption in Hilmer report that "Competition is . . . a positive force that assists economic growth and job creation."
3. Validity of argument for perfect competition in the market place. cite restaurant and hospitality industry.
- 4 But inefficiency in certain market operations - cite Chifley Dedman post war financial controls versus Menzies deregulation. close to home - insurance industry.
- 5 Assumption on which Hilmer proceeded totally ignores 2 factors - (1) to get a co-ordinated community approach to develop resources over a wide area of planning takes community initiative and effort - and the creation of structures which do not fit the competition straitjacket. Cite housing history in SA. In fact competition policy as it has developed is inhibiting initiative at the community level. Grave limitations on initiative and enterprise at the individual level in community. Exceptions like Hills and Solar - but they are exceptions. (2) Public servants can and often are driven not by private profit but by a sense of community service. That is not a resource to be wasted. It is not the case that competitive greed is the only basis of efficient service.

# DUNSTAN ORATION

## I.P.A. CONFERENCE

14th August 1988

It is frequently assumed in current-day administration that if you hold a public inquiry and invite submissions all relevant matters and interests will make the submissions needed to ensure that those relevant matters are before the inquiry and can be dealt with in its report so that the government can make decisions in an informed way. There is an underlying assumption here- that all relevant matters will be dealt with by those with articulate interest in the subject matter of the inquiry and will come up in an organised way. That assumption is incorrect in many situations. Often factors which ought to be taken into consideration are not part of the agenda of particular

groups of people or corporations or organisations who make representations. What is more, many people who might be affected positively by a proposal do not feel under pressure or threat by it and therefore make no submissions. Many activities in the community which are beneficial are not seen as under threat by those who otherwise might make submissions - because the implications of a proposal are often not clearly understood. It is much easier to get people involved and submissions made if they think that their interests are in any way threatened than if positive submissions are sought.

Let me give an example - in South Australia in the war years a survey of housing in metropolitan Adelaide showed that there were areas of housing not fit for human habitation and certain areas were designated as areas of "urban blight". A policy of slum clearance and rehabilitation of areas had some legislative provision which, given post-war housing shortages, was not implemented until the return of a Labor Government in 1965. Then submissions were called for as to what areas might be dealt with in this way and how to proceed in the process. Nobody rushed forward with a submission. Then with the assistance of the Professor of Architecture at Adelaide a proposal was developed to treat the Hackney area as such an area of urban blight and to use it for the provision of much higher density living than its existing occupation provided in order to set an example of how the vast expense of providing services to wider and wider areas of low density suburbs could begin to be reversed. The local Council was involved and the Mayor called a public meeting to discuss the matter. Hardly anyone came. When then work commenced about acquisition of property to carry out the scheme suddenly the people of Hackney and numbers of activists from other areas sprang to life. It was well that they did. In the subsequent process the urban blight feature of the area was eliminated, though the

proposed much higher density was not achieved.

What was driven home to government was that publishing of a proposition and inviting submissions did not of itself produce a report which took all relevant factors and concerns into account. And if an inquiry begins with an assumption of the kind which generated the report of the "Independent Committee of Inquiry" into a National Competition Policy - (the Hilmer Report) one can expect that there will be a serious failure to appreciate a number of relevant factors not consonant with that assumption. The assumption I refer to was that of the then Prime Minister in his One Nation statement of 26th February 1992 "the engine which drives efficiency is free and open competition." Now sometimes and in some circumstances that proposition is true. But to treat it as virtually universally applicable to all social behaviour in the economy is simplistic in the extreme. Let me quote this lyrical passage from the Committee's report: "Australian organisations irrespective of their size, location, or ownership, must become more efficient, more innovative, more flexible [Note they don't except any part of social organisation. Apparently at that time every activity needed more efficiency, more innovation, more flexibility They go on] Over the last decade or so, there has been a growing recognition, not only in Australia but around the world, of the role that competition plays in meeting these challenges Competition provides the spur for businesses to improve their performance, develop new products and respond to changing circumstances. Competition offers the promise of lower prices and improved choice for consumers and greater efficiency, higher economic growth and increased employment opportunities for the economy as whole."

The proposition deserves a little examination. In some cases free and open competition does not produce the "offering" referred to. In the case of the insurance industry in South Australia in the 1960s and early 70s there

were many insurers competing in the market place. But in many policy areas their competition for a share of the market place had led them to lock themselves into up front payments to commission agents to canvass for sales of policies. That inevitably meant that premium rates were higher than they should have been - the competition did not lead to lower prices. That was one of the reasons for setting up the State Government Insurance Commission - which did not sell through commission agents and was able to sell policies over the counter for lower premiums. That forced the prices down - but only by community intervention in that way. (The other reason for setting the SGIC up was that the existing insurance industry only reinvested 17 % of the premium income they derived here with South Australia. The SGIC was in due course able to provide massive investment funds to support economic developments in the private sector here.)

Again, perfect competition can lead to a serious waste of resources. I was responsible for the legislation which made it easy to obtain restaurant licenses to sell liquor with food service. The number of restaurants in Adelaide increased exponentially, and given changed conditions of work patterns in society more and more people demand and make use of facilities for eating outside the home and outside American owned or franchised fast food chains. I refused to set limits saying this is a rare example of perfect competition - we will let it produce the results. But the results have been that over the years many restaurants have failed. As a restaurateur I can recount that in the four years during which we operated on The Parade Norwood four restaurants opened and closed within two blocks of us. The waste of the resources in setting them up must have run into at least \$1,000,000.

In the 1960s there was fierce competition between petrol wholesalers for shares of the market, and service stations mushroomed on street corners

throughout the metropolitan area. Eventually the service station war was called off, and the sites on which an enormous amount of capital had been spent progressively closed and were derelict for quite a period until they could be sold off. Not only was this a waste of millions but it also entailed the ruin of many small privately-owned service station proprietors.

Now we are seeing massive overinvestment in small movie theatres - there are eight to up on The Parade Norwood - ironically on the site of one of the service stations I mentioned! We will eventually see numbers of these complexes close - again with a vast waste of resources.

At the national level deregulation and facile reliance on competition have in the past provided a sad history for Australia. Emerging from the stringencies of life in war-time there were great hopes for Australia's development. We, after all, were a small nation but with great natural resources. Around us we could perceive eventually developing markets to which as well as to the developed world, we should be able not only to export raw materials, food minerals and foodstuffs, but we had developed expertise and with the importing of migrants with expertise themselves could turn to fabrication of products from our raw materials. But to do so would mean careful community planning for long term investment and development. That meant we had to make community decisions about the direction of investment to ensure the result. That regime was in the course of operation (it of course helped to achieve the establishment of the car industry here) when in 1949 the Menzies Government was elected. All forward planning and control of the direction of investment was then swept away in the name of letting "competition" and the market determine the future. So it did. Japan, its industry decimated by the war, and with virtually no major national raw materials resources, was not then in a position to become the major fabricator and manufacturer of the region as we were. But the Japanese

through MITI followed the path that Australia forsook in 1949 - it ensured long term investment to tool up for industrial production. In consequence it became the economic giant of Asia while Australia merely exported its unfabricated raw materials to Japan to fuel its development. We then rode of the back of commodities export, and investment in Australia was wholly predicated to short term profit. Instead of being the manufacturing giant of our region - of reaping the benefits which a nation of then similar size - Sweden - had been able to do in its neutrality during the war - we became South East Asia Supermarket No III. We still today suffer the lack of foresight of that era. We went on to entrench in our company laws the competition of short-term profit takers, by providing ease of take-over operations for any company the market price of whose shares fell below the real value of the company. This has meant that company directors could not, if they were to maintain control of their companies, put money in any substantial amounts in long term re-investment for research and development pr gpr capital re-equipment. We had to watch while in the competitive area of ship building where we had a substantial industry it was lost to Australia because our investment in upgrading our equipment to remain competitive did not occur - if it had the companies responsible would not have been able to resist take-over. At the time the Whyalla shipyards closed one crane in a Korean shipyard could perform what it took seven cranes here to do.

The statement that "Competition provides the spur for businesses to . . . develop new products" totally ignores a number of factors. The theory of perfect competition is based on the fact that in the competitive situation so postulated, there are so many players in the market place that none is large enough alone to affect the market by pricing or restricting supply. But for many needed developments in the community it is necessary for combinations at least to occur, or the suppliers to be coordinated in a joint or



community undertaking. There was the availability of a competitive market place for housing investment in South Australia at the time the Housing Trust was set up. The investment did not occur. But for the activity of Sir William Goodwin and Mr Hogben and the support of the State urged on successive governments by J.W. Wainwright ( who might well be called the father of the modern State public service,) we would not have gone to a state where not only the indigent poor, but the average worker could rent or buy a house of good quality economically and at a lower price than elsewhere in Australia- contributing to a quality of life in South Australia the envy of other States.. In the lecture which I delivered for the ACTU in the Whitlam lecture series earlier this year I cited a whole lot of instances where only by community action and not by the inspiration of someone operating in a perfect competition situation as an individual in the market place we obtained developments vital in the provision of satisfactions to the citizens. From any examination of our history it is absurd to look on the competition in the market place as *the* rather than as *a possible* spur to development. It is true that in the market place individual initiative can prove successful . We can cite the examples in this State of Hilts Hoists and Solar International . But they are not the generality. Let me give another example = when I undertook in Victoria to revise the administrative structures for Tourism a survey of the market came up with an obvious gap. Victoria had a number of individual tourist attractions of value, but lacked what was quite vital to being able to sell it into foreign tourist wholesalers manuals - a two to three days of continuous tourist experience. Certainly the city of Melbourne could not compete with Sydney in that regard. For most of the major tourist attractions one had to bus tourists out of Melbourne on a two or more hour bus ride - and there was nothing along the way. Individual tourist operators came up with quite good proposals but they lacked co-ordination to provide the necessary tourist experience. The only

way to get a better product on the ground was to plan it and pursue investment in a co-ordinated way with some community and State input. The market *would not and did not* provide the spur.

In applying its competition formulas to the public sector the National Competition Policy also overlooks another factor which anyone dealing with the public service must know about. The sense of public service - of undertaking a role which is to the benefit of the community - is a spur to many not understood by those whose mind-set is such that they think that the only motive for human activity is personal greed. In the course of my work as a politician and Minister I have met many who, working in the public service, have given unstintingly of their time and effort simply to achieve good results for the people whom they serve. It is absurd not to draw on this as a source for development and efficiency, and to impose a strait-jacket on the provision of public services by saying that they must be fragmented and outsourced to ensure that they are operating in a market place and in a situation of perfect competition seeking profit.

To say all this does not mean that there are not have not been reasons from time to time to be dissatisfied with public sector activity - there obviously have been. There is always likely to be a struggle to maintain efficiency and accountability and to ensure that the public sector meets the social goals for which its various departments were established. In that struggle there is a pattern frequently discernible in human institutions which I have summarised as "Dunstan's Law" - namely that every human institution public or private like every critical mass tends to inertia. This is because those who are genuinely creative within a community are always a minority. In the seventies it was fashionable amongst some University radicals to expound the views of Herbert Marcuse - that we must destroy the institutions of society in order to release the creativity of the masses. It was a taradiddle - there is no

creativity of the masses. Creativity has always been by elites - by ginger groups. When new institutions are founded they are normally headed by creative persons who are part of such an elite. But as the institutions grow there develops a second or third management level containing persons who are not similarly creative, who find at best safety and at worst the exercise of some degree of personally satisfying power and self regard by being negative rather than positive. As the creative management retires or passes on the lower and less creative tend to succeed to top positions by the operation of seniority principles. The organisation then tends to turn to caution and a slowing or cessation of entrepreneurial initiative. Now while there are infinite variations on this process the pattern is frequently observable. In the public sector it is compounded by tenure - tenure rules which are often absurd and obstructive to the effective service for which the organisation was founded. I have not time for the many examples I could give to illustrate the process - one will suffice for the moment. The Victorian Railways when in their period of great expansion were famous for their service and the ancillary and community services they provided under an energetic and inspired railways commissioner. He had great campaigns to promote health and the railways refreshment services all provided freshly squeezed orange juice. The famous old chalet at Mt. Buffalo was set up and run by the Railways. It was till run by the Railways when I went to Victoria in 1982.. The chalet was making a considerable loss. they had permanent staff on and kept them on at the times of the year when the occupancy rates were very small. The Tourism Commission which I set up in Victoria then had a subsidiary company which it owned take over the chalet and we staffed it according to the normal economic provisions of the hospitality industry - a small permanent staff and casuals called on according to demand and turned it to profit. At the same time there were still railways-operated refreshment

services as well as some leased to private operators. In the same locations the private operators made a profit and the railways ones a loss. Now that is not a necessary position - it is simply that action to revise the administration, to have efficiency teams doing regular re-examination to ensure that the original social purpose of the organisation is being met is what is needed. For the same process occurs in the private sector as well. It is not fixed by fragmenting a service operation to produce artificially and inappropriately a "competition spur."

The most absurd and socially harmful operation of the notion of competition as the producer of efficiency and innovation has been in the privatisation of services formerly provided by the Commonwealth Employment Service. The result of this crazy and wholly inefficient operation is that neither the unemployed nor the employers are effectively serviced - the cost to consumers has gone up - and it is a disaster of mammoth proportion.

It was at the time of the appointment of the Inquiry necessary to plug the gaps in the Trade Practices Act and its administration. But the opportunity was taken to go far beyond that and form the basis of attack on the whole public sector. It must be said that National Competition Policy as presently operating so far from making this a more efficient and competitive country has not lessened regulation but increased it - and applied demands for regulated structures which in many cases are wholly inappropriate unnecessary and inhibiting of initiative and innovation. That is not the way to the future for new governments or new communities.