

## Articles

### **The Privatisation of Government-Owned Enterprises in Australia: The Case of New South Wales**

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#### **Abstract**

*The purpose of this paper is to discuss the organisation of the state industrial undertakings carried out in Australia by the state government of New South Wales, and to analyse the reasons behind their privatisation in the 1920s and 1930s. The privatisation of government-owned enterprises has occurred in a number of countries in recent years (including Australia) and a number of alternative explanations have been given for this occurring. The privatisations of the New South Wales Government in the 1920s and 1930s were driven mainly by budgetary concerns and therefore look similar in character (if not in scale) to some of those undertaken in Australia during the 1990s and 2000s.*

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The sale of government-owned businesses, “privatisation”, has occurred throughout many countries since the 1980s. In Australia during the years of the Bob Hawke and Paul Keating

led Australian Labor Party governments (1983-1996) and John Howard led Liberal/National coalition governments (1996-2007), large scale privatisations of a number of government-owned businesses were carried out. At the same time the state governments in Australia also carried out the privatisation of government-owned businesses. By 2016 only a few government-owned businesses - most notably Australia Post, some electricity businesses in Queensland and New South Wales, a number of the port companies as well as numerous water companies - were still in the hands of governments. All in all the proceeds of the privatisation process in Australia were \$194 billion (constant dollar terms 2000).<sup>1</sup>

Prior to the 1980s important examples of privatisations in Australia did occur, including the sale of the Commonwealth Shipping company by the Bruce-Page Coalition Government in 1928<sup>2</sup> and the sale of the Australian Government's shareholdings in the Commonwealth Oil Refineries by the Menzies Coalition Government in 1952 of the Australian Government's shareholdings in the Commonwealth Oil Refineries.<sup>3</sup> Both of these privatisations were one-off events and were not part of larger programmes. Before the 1980s regular programmes of privatisations were not common, but did occur. The Nationalist

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<sup>1</sup> Malcolm Abbott and Bruce Cohen, "A survey of the privatisation of government owned enterprises in Australia since the 1980s", *Australian Economic Review* 47(4) (2014): 432-54.

<sup>2</sup> The shipping company sold for £1,900,000; *Sydney Morning Herald*, 16 April 1928, 11.

<sup>3</sup> The Government's share sold for £2,762,506; *Sydney Morning Herald*, 9 October 1952, 5.

Party Government led by George Fuller in New South Wales, for instance, in 1923 disposed of the state bakery, timber-yard and trawlers and the Bertram Stevens-Michael Bruxner UAP/Country Party Coalition Government in the same state in the 1930s sold the state pipe works, the metal quarries and brick works as well as the equipment of the Walsh Island dockyard.<sup>4</sup> The Arthur Moore Country/National Coalition Government in Queensland carried out a similar sell-off of government businesses in the early 1930s.<sup>5</sup>

In the New South Wales case historians such as F.A. Bland and R.S. Parker tended to be more interested in the foundation and operation of the state-run businesses and the motivation of the Labor politicians who founded them, than the reasons why non-Labor governments sold them back to the private sector.<sup>6</sup> Murphy in writing on the case in Queensland has a similar focus. Eggleston in contrast in writing on the Victorian case gave more emphasis on the deficiencies of the state-owned enterprises.<sup>7</sup> Historians have tended to attribute the privatisations of the 1920s and 1930 to either an ideological commitment to private ownership over “socialist” enterprise, whatever the costs

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<sup>4</sup> *Sydney Morning Herald*, 20 October 1923, 13; 21 December 1935, 13. *The Argus*, 27 October 1923, 30.

<sup>5</sup> D.J. Murphy, “State enterprises.” In D.J. Murphy, R.B. Joyce and C.A. Hughes, eds. *Labor in Power: the Labor Party and Governments in Queensland 1915-1957* (St Lucia Q: University of Queensland Press, 1980), 155.

<sup>6</sup> F.A. Bland, “The administration of government enterprises”, *Economic Record* 5 (1929): 1-21. R.S. Parker, “Public enterprises in New South Wales”, *Australian Journal of Politics and History*, 4(2) (1958): 208-223.

<sup>7</sup> F. Eggleston, *State Socialism in Victoria* (London: P.S. King & Son, 1932).

to the government or public, or a corrupt relationship between the government and the supporters of privatisation who themselves ran business who competed with the state-run works. Parker and Evatt, for instance, both point to the contribution made by the purchasers of the privatised works to the government party who undertook the sales.<sup>8</sup> There is evidence, however, that the process was more complex and was influenced by the New South Wales Government's financial position. Identifying the causes of this earlier experience in states like New South Wales, can therefore help add to the development of an understanding of the privatisation process.

In recent times the wave of privatisations around the world has led to a number of interpretations of why they have occurred.<sup>9</sup> These interpretations include such things as a desire

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<sup>8</sup> H.V. Evatt, *William Holman: Australian Labour Leader* (Sydney: Angus and Robertson, 1940), 505-7. Parker, "Public enterprises", 214. D. Clune, "Sir George Warburton Fuller." In D. Clune and K. Turner, *The Premiers of New South Wales*, Volume 2, 1910-2005 (Sydney: The Federation Press, 2006).

<sup>9</sup> William, L. Megginson, and Jeffrey, M. Netter, "From state to market: A survey of empirical studies on privatization", *Journal of Economic Literature*, 39 (2001): 321–89. Simon Domberger and John Piggott, "Privatization policies and public enterprise: A survey", *Economic Record*, 62 (1986): 145–62. Armen Alchian, "Some economics of property rights", *Politico*, 40 (1965): 816–29. D. Marsh, "Privatisation under Mrs Thatcher: review of the literature", *Public Administration* 69, Winter (1991): 459-480. J. Moore, *Privatization Everywhere: the World's Adoption of the British Experience* (London: Centre for Policy Studies, 1992). M.G. Pollitt, "A survey of the liberalisation of public enterprises in the UK since 1979" (Cambridge UK: University of Cambridge Unpublished mimeo, 1992). J. Vickers and G. Yarrow, *Privatization: an Economics Analysis* (Cambridge MA: MIT Press, 1988). John Vickers and George Yarrow, "Economic perspectives on privatization", *Journal of Economic Perspectives*,

to lower government involvement in industry for ideological reasons, that is to change the role and conception of the state and to extend the use of the market to allocate resources;<sup>10</sup> to diversify the ownership of shares in companies amongst the general public;<sup>11</sup> to increase the efficiency of the businesses;<sup>12</sup> to use the proceeds of the sales to lower public debt levels; and to help generate additional funds for the expansion in the short run of public services in such areas as health and education, or to finance tax cuts.<sup>13</sup> It has also been seen as a way of state restructuring through de-politicisation of state agencies (by reducing the scope of politicians to impose non-commercial

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5(2) (1991): 111–32. Mary Shirley and Patrick Walsh, “Public versus private ownership: The current state of the debate” (Washington DC: World Bank Working Paper, 2000). Andrei Shleifer, “State versus private ownership”, *Journal of Economic Perspectives*, 12(4) (1998): 133–50.

<sup>10</sup> Margaret Thatcher herself argued that one of the reasons she pursued privatisation was to destroy socialism: Margaret Thatcher, *The Downing Street Years*. (London: Harper Collins, 1993), 73.

<sup>11</sup> In the British case and in the Australian case with the privatisation of Telstra this was argued as a motivation.

<sup>12</sup> In a variety of instances in Australia privatisation has been advocated as a means to improving the efficiency of the government-owned enterprises. The Kennett Government when it privatised the electricity industry in Victoria, for instance, broke up the generator segment of the industry into a number of companies based on the major power stations, rather than create multi-station companies (as was the case in states like South Australia). This it did so in order to promote competition as much as possible and therefore efficiency. At the same time the Kennett Government was also interested in the proceeds of the sale.

<sup>13</sup> Pollitt, “A survey”, 3-5.

aims such as the cross subsidisation of some services on the businesses) and/or as a means of disciplining labour.<sup>14</sup>

In the Australian context the reasons given for recent privatisations have changed over time. In the 1980s the oft cited reason was to increase efficiency, although many enterprises sold were profitable, whilst more recently the reasons have been to reduce debt levels and fund public services such as hospitals and schools (or to fund tax cuts). Although the proceeds of privatisation are negated by the forgoing of the future revenue streams from the sold enterprises, this does not eliminate the motivation for governments to sell them if they are interested in the short term political gains of funding expansions in public services. Although all of the above listed factors have been important in the Australian case in recent years, to some degree the desire to raise funds for the expansion of other public service provision or tax cuts has become the most important reason.<sup>15</sup>

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<sup>14</sup> Peter Burnham, “The politics of economic management in the 1990s”, *New Political Economy*, 4(1) (1999): 37-54. Peter Burnham, in Paul Edwards & Tony Elgar (eds) *The Global Economy, National States and the Regulations of Labour* (New York: Routledge Studies in Employment and Work Relations in Context, 2000).

Bob Walker and Betty Con Walker, *Privatisation: Sell Off or Sell Out? The Australian Experience: New Introduction* (Sydney, Sydney University Press, 2008). Peter Fairbrother, Michael Paddon, Michael and Julian Teicher, Julian (eds) *Privatisation, Globalisation and Labour: Studies from Australia* (Leichhardt, NSW: Federation Press, 2002).

<sup>15</sup> This took place even when ostensibly governments were attempting to reduce levels of government debt. In the process of reducing debt lower interest payments needed to be made and if (as in most cases were true) these interest payments were greater than the returns on retaining the state assets than governments were able to increase their expenditure on other services: Malcolm

This explains why the privatisation process has been undertaken at both the national and state levels, and by governments of all political persuasions.

The purpose of this paper, therefore, is to analyse the reasons behind the privatisations carried out in the 1920s and 1930s by the New South Wales Government. In doing so it is possible to identify which of the previously mentioned interpretations of privatisations is most valid in this case. In particular an attempt will be made to determine if the privatisations were motivated by ideology (or corruption) as previous historians have claimed, or if some of the other interpretations, such as a desire to broaden share ownership, to raise revenue to finance an expansion of government services, reduce debt, or improve efficiency were important. In the following section a review is given of the history of state industrial undertakings in New South Wales. This is followed by three sections on the ways in which the Government of New South Wales disposed of the undertakings.

### **The State Industrial Undertakings**

Throughout most of the twentieth century Australian governments, at both the national and state level, have operated a number of government-owned businesses. These tended to operate in the energy (gas and electricity), transport (aviation, ports and railways), finance (insurance and banks) and

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Abbott, “Electricity reform and gains from the reallocation of resources”, *Electricity Journal* 20(7) (2007), 72-78.

communications (post and telecommunications) sectors, but also in a range of other activities.<sup>16</sup> These enterprises tended to be in areas that possessed some form of monopoly power, were capital intensive and required substantial investment funds to be established.<sup>17</sup> Because of the heavy expense involved the tendency was for the colonial (later state) governments to establish these enterprises and for them to be supportive of private business activity rather than to displace it.

In the immediate years before the First World War, however, there arose a different type of government in New South Wales that was interested in creating enterprises that either directly competed with private companies or replaced them altogether.<sup>18</sup> The Labor Party, which was in office in New South Wales between 1910 and 1916, was not just interested in areas of public activity like railways and irrigation schemes, but also in the creation of business such as metal quarries, brick and

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<sup>16</sup> N.G. Butlin, A. Barnard, A. and J.J. Pincus, *Government and Capitalism: Public and Private Choice in Twentieth Century Australia* (Sydney: George Allen & Unwin, 1982), Chapter 2.

<sup>17</sup> N.G. Butlin, "Colonial Socialism in Australia 1860-1900." In H.G.J. Aitken ed., *The State and Economic Growth* (New York: Social Science Research Council, 1959).

<sup>18</sup> At the same time similar governments in Western Australia and Queensland carried out similar programmes D.J. Murphy, *The Establishment of State Enterprises in Queensland, 1915-1918*. Honours Thesis, History Dept. (Brisbane: The University of Queensland, 1965). D.J. Murphy, "The establishment of state enterprises in Queensland, 1915-1918", *Labour History* 14: (1968): 13-22. J.R. Robertson, "The foundations of state socialism in Western Australia", *Historical Studies: Australia and New Zealand*, 10(39) (1962), 309-326.

lime works, timber yards, bakeries, trawlers and sawmills. These were all designed to displace, or compete against, rather than to support private enterprise. In addition to these enterprises that were established there was also a range of others whose establishment was advocated by the Labor Party, but for a variety of reasons never came to fruition.<sup>19</sup>

Right from its origins in the 1890s the New South Wales Labor Party was interested in the creation of additional government-owned businesses.<sup>20</sup> The two main areas that these enterprises were established in were the manufacture of products used by the government Public Works and Railways departments (i.e. bricks, pipes and timber) and the processing of basic staple consumer items (i.e. fish and bread) (for a full list see Table 1).<sup>21</sup> In both cases Labor politicians argued that producers were exploiting consumers and that state-run works would introduce competition into these markets.<sup>22</sup> Labor politicians also argued that the establishment of these ventures would help workers by creating model working conditions.<sup>23</sup>

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<sup>19</sup> The two most notable areas in which this occurred was in the case of the government's failure to create a government owned iron and steel company and its failure to take over the Sydney gasworks companies.

<sup>20</sup> M. Hogan, *Labor Pains: Early Conference and Executive Reports of the Labor Party in New South Wales* (Annandale, NSW: Federation Press, 2006).

<sup>21</sup> Evatt, *William Holman*, 501; Parker, "Public enterprises", 209.

<sup>22</sup> Arthur Griffith; *Sydney Morning Herald*, 6 March 1912, 20. William Holman also attacked the "timber vend" and "brick combine"; *Sydney Morning Herald*, 8 June 1912, 17.

<sup>23</sup> The Premier James McGowan and Minister for Public Works both made such claims: *Sydney Morning Herald*, 22 July 1912, 7.

Although the attitude of most conservative politicians was to oppose the establishment of these ventures, opposition was not universal or indeed consistent. The Government Railways and Tramways, Tourist Bureau, New South Wales Post Office, State Clothing Factory, Government Savings Bank, Timber and Joinery Works, and the Cockatoo Island Dockyard had all, for instance, been established in New South Wales before the Labor Party came to office.<sup>24</sup> Conservative politicians, therefore, were willing to accept some types of government-owned businesses as long as they did not impose too great a financial burden on the state, and sought to support private business rather than displace it.

Initially the Labor Party Government led by McGowan established a brickworks, metal quarries and a lime works in 1911. The funds to construct these came from the Public Works Department and subsequently legislation was passed to administer them. In 1912 the *Special Deposits (Industrial Undertakings) Act* was passed which formally recognised the

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<sup>24</sup> New South Wales, *Official Year Book of New South Wales 1911* (Sydney: Government Printer, 1911): 620. The Cockatoo Island Dockyard and the New South Wales Post Office were both transferred to the national government after federation. In the same year that the Cockatoo Dock was transferred to the Commonwealth the New South Wales Government built a new dockyard at Walsh Island, Newcastle. The Government Savings Bank had been established in 1871. The clothing factory had been established in 1902 to produce uniforms for the police force and the railways department had operated the timber and joinery works before it was reclassified as a quasi-autonomous, industrial undertaking in 1914, and the sawmills had been operated by the Forestry Department before becoming a state industrial undertaking in 1917. *Official Year Book of New South Wales 1917*, 640.

brickworks, the lime works, the timber yard, and metal quarries. It also recognised the Cockatoo dockyard (before it was transferred to the Australian Government) and the clothing factory, which had been established by previous governments. The Act made each undertaking a separate entity, which had to submit its accounts directly to parliament, which were then reported on by the Auditor-General.<sup>25</sup> The capital expenditure of each undertaking was determined by a committee including the Auditor General. Revenue generated by each undertaking was made available to cover the costs of operation and any surplus was then taken into Consolidated Revenue.<sup>26</sup> The Act also allowed for the establishment of future industrial undertakings on a similar basis.<sup>27</sup>

The Act classified these government-owned businesses as “state industrial undertakings”, and distinguished them from other types of government-owned enterprises such as the railways, the Metropolitan Water and Sewerage Board and the Sydney Harbour Trust. The Act effectively provided for a type of quasi-corporatisation, which aimed to operate the undertakings on a commercial basis and without the direct oversight of a Minister or government department.<sup>28</sup> It was subsequently not to be applied in a consistent fashion but instead the list of enterprises classified as state industrial undertakings changed as some enterprises, such as the clothing factory, passed

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<sup>25</sup> Parker, “Public enterprises”, 218.

<sup>26</sup> Evatt, *William Holman*, 306.

<sup>27</sup> *Sydney Morning Herald*, 19 September 1912, 7.

<sup>28</sup> Parker, “Public enterprises”, 212-3.

back and forth between direct departmental control and industrial undertaking status.

The commercial and non-politicised orientation of the undertakings was made clear at the time the legislation was passed by the New South Wales Government. The Minister responsible for the establishment of many of the state industrial undertakings, Arthur Griffith, stated in introducing the Act that:

It provides that for each industrial undertaking there shall be a special account, to which shall be debited all the charges incidental to the carrying out on of the particular business, the salaries connected with it, the interest on the capital sum, the loss in depreciation, and all the proper debits of the industry; whilst on the other side, the value of its products must be placed to the profit account, so that every year the balance sheet will show everything just as clearly in a Government undertaking as in a private concern.<sup>29</sup>

After the passing of the Act and the subsequent establishment of the undertakings, the three most enduring were the State Brickworks at Homebush Bay, the State Metal Quarries and the State Monier Pipe Works. The State Brickworks was established in 1911 on Crown Land at Homebush Bay to manufacture bricks. The necessary buildings and plant were erected on approximately twenty-three acres of land purchased for that purpose and a central delivery depot was established at

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<sup>29</sup> New South Wales, Parliament, House of Assembly, *Parliamentary Debates*, Second Series, vol. 41 (Sydney: Government Printer, 1993).

Blackwattle Bay.<sup>30</sup> Trading operations of the State Brickworks commenced on 1 November 1911 and the output for the first trading period was wholly absorbed by the state government.<sup>31</sup> The establishment and equipment of the State Brickworks was later sanctioned by the *State Brickworks Amplification of Plant Act, 1912*.<sup>32</sup> The State Metal Quarries covered the quarrying of blue metal and stone as a commercial enterprise. The activity commenced with the purchase of the Kiama Road Metal Company's Property on 1 September, 1911 and McSweeney's Quarry on 23 January, 1912.<sup>33</sup> The Monier Pipeworks involved the production of concrete pipes as a state commercial enterprise. Commencing with the purchase of the Monier Pipe Works from Gummow, Forrest, and Company Limited in February 1914, they produced concrete pipes that were used by the various water and sewerage boards.<sup>34</sup>

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<sup>30</sup> New South Wales, Parliament, *Parliamentary Papers* 1934, (Sydney: Government Printer, 1934), 587. New South Wales, Parliament, *Parliamentary Papers*, 1933/34, vol. 2 (Sydney: Government Printer, 1935). Accounts of the business and industrial undertakings, administrative and miscellaneous accounts. New South Wales, Auditor-General, *Report of the Auditor-General 1932/1933* (Sydney: Government Printer, 1933).

<sup>31</sup> New South Wales, *Parliamentary Papers*, 1934, 587.

<sup>32</sup> *State Brickworks Amplification of Plant Act, 1912*, The Statutes of New South Wales 1911/12, Act No. 16

<sup>33</sup> New South Wales, Parliament, *Parliamentary Papers* 1912, vol. 3 (Sydney: Government Printer, 1912), 685. New South Wales, Parliament. *Parliamentary Papers*, 1911-12, vol. 3 (Sydney: Government Printer, 1912).

<sup>34</sup> New South Wales, Parliament, *Parliamentary Papers* 1914, vol. 2 (Sydney: Government Printer, 1914), 619. New South Wales, Parliament, *Parliamentary Papers*, 1914, vol. 2. Papers relating to the purchase of Monier Pipe Works from Gummow, Forrest, and Company Limited (Sydney: Government Printer, 1914).

Besides the quarries, brickworks and pipe works a range of other businesses became state industrial undertakings. These included some like the clothing factory, sawmills and joinery works which were transferred from departmental control, and newly established ones such as the State Bakery, the Walsh Island dockyard (only briefly classified as an industrial undertaking), the State Trawler company, a lime works and lime brick works, the building construction unit, a timber yard, a power house, a drug depot and a motor garage. The full list of the state industrial undertakings provided in Table 1 also provides that dates of their founding and a description of what became of each of them. Although the list covers an extensive range of activities, gradually through the 1920s and 1930s they were either shut down, transferred back to the control of individual government departments or privatised through the sale of their assets to private companies.

### **Privatisation**

Broadly speaking, the state industrial undertakings were disposed of by the New South Wales Government in four different ways: 1) they were incorporated into other departments, 2) they failed early in their lives and were shut down; 3) they were sold or closed by the Fuller Government in 1923 and 1924 for economic reasons or 4) they were sold in 1935 by the Stevens Government.

*Non-privatisations*

To begin with several of the undertakings were not actually sold or closed down, but survived in another form. The state clothing factory for instance - which had been created in 1902 to manufacture uniforms for the Police Department and was run by the Stores Supply Department - became a state industrial undertaking in 1914 but then reverted back to Departmental control in 1923. Other entities that were state industrial undertakings for a time before reverting to direct departmental control were the Building Construction Branch, the Motor Garage, the Housing Fund, the Metropolitan Meat Board, and the Observatory Hill Resumed Area. In each of these cases a government department, such as the Public Works Department, had a direct interest in their continued operation and so reclaimed control of them.<sup>35</sup> In addition in each of these cases the undertakings tended to be profitable (in the case of the clothing factory and building construction branch very profitable; see Table 1) and so the related government department did not perceive them as being a financial burden and was willing to continue operating them.

A small number of state industrial undertakings failed quite quickly and were wound up. The timber and joinery works located at Rozelle, for instance, was taken over from the railways in 1912, but two years later it was destroyed in a fire and never rebuilt. Its remaining assets and staff were transferred

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<sup>35</sup> Parker, “Public enterprises”, 220.

to the timber yard's control. The sandline brick works that was established at Botany was also a failure in that it was closed three years after it was founded, because it was not possible to manufacture lime at a rate that came close to meet expenses. An associated lime works at Botany was also closed soon after.<sup>36</sup> Finally the lime works quarry near Taree was also closed in 1915 after it was proved difficult to find customers for the lime extracted there. It was subsequently leased to BHP who used it to produce lime that was used as a flux in blast and steel furnaces. In each case these enterprises were closed by the Labor Government led by William Holman, which recognised that there were some limits to the operation of the state industrial undertakings and accepted that they could not be run at a loss.<sup>37</sup>

### *Privatisations: the first round*

Despite the closure of a few of the undertakings during the First World War no concerted attempt was made to shut down the state industrial undertakings until after 1922. After the fall of the Labor Government in 1916 due to its split over the issue of conscription, the Premier William Holman formed a coalition government between his own pro-conscription Labor Party followers and the members of the opposition Liberal Party. This Government was confirmed in office at an election in 1917 and Holman continued as Premier until he was finally defeated at an election in 1920. Throughout his period as Premier, Holman

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<sup>36</sup> Parker, "Public enterprises", 216.

<sup>37</sup> Evatt, *William Holman*, 501.

continued to support the state industrial undertakings, as he would continue to do publicly after he lost his seat in parliament at the 1920 election.<sup>38</sup> He even managed to add an extra undertaking while he was the leader of the Nationalist Party Government (the Drug Depot).

After the 1920 election the new Labor Party Premier, John Storey and his successor, James Dooley, accepted that the state industrial undertakings stay in government ownership. In April 1922, however, a Nationalist/Country party coalition government was elected led by George Fuller, which was committed to privatising those state industrial undertakings which had been making losses. During the election campaign Fuller had campaigned strongly on the issue of the better financial management of the state, including that of the state industrial undertakings. In his policy speech he stated that:

Some are justifiable as State undertakings, but others have no warrant to be carried on if the services can be secured from private enterprise with a saving of the public expenditure. Prudent management does not imply a course of action that would make for increasing the ranks of the unemployed. Our object is the elimination of waste and extravagance and the introduction of good business methods.<sup>39</sup>

Fuller, therefore, was not publicly committing his government at this stage to privatising all state industrial undertakings, or indeed any at all, but simply to rectifying the

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<sup>38</sup> Evatt, *William Holman*, 506-7.

<sup>39</sup> *Sydney Morning Herald*, 21 February 1920, 9-10.

financial loss to the government of those that were poorly managed. By the early 1920s a few of the undertakings were losing considerable sums (for instance the sawmills, timber yard and trawlers, Table 1).

After a brief post-war boom in economic activity a short recession occurred in 1921 and 1922 which reduced government taxation revenue and profits from the state industrial undertakings. Some of the undertakings had always struggled to make money. The State Trawlers, for instance, had only made a small profit in a single year (1920/21) and in the financial year 1921/22 made a loss of £63,328 and in 1922/23 of £39,326.<sup>40</sup> The timber yard had briefly made a profit in the financial years 1915/16, 1919/20 and 1920/21, but made sizable losses in 1916/17, 1917/18, and 1918/19.<sup>41</sup> In 1921/22 the yard fell heavily into the red (£90,297) and again in 1922/23 (£45,113).<sup>42</sup> The sawmills also made a sizable loss in 1921/22.<sup>43</sup> The State Bakery had made a slim profit throughout the war years but the returns from it were quite small compared to the money invested in it.<sup>44</sup> The other state industrial undertakings all operated at a profit, and in the case of the brickworks a sizeable one. The metal quarries, the brickworks and the Monier pipe works had all made profits in all of the years that they were operating and

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<sup>40</sup> *Official Year Book of New South Wales*, 1921: 207, 1922: 67, 1923: 95.

<sup>41</sup> *Official Year Book of New South Wales*, 1916: 422, 1917: 265, 1918: 264: 1919: 135, 1920: 167, 1921: 207.

<sup>42</sup> *Official Year Book of New South Wales*, 1922: 68, 1923: 95.

<sup>43</sup> *Official Year Book of New South Wales*, 1922: 68.

<sup>44</sup> *Official Year Book of New South Wales*, 1916: 422, 1917: 265.

were to continue doing so right up until the Great Depression. The 1920s was a period of expansion of the Sydney metropolitan area and so therefore demand for building products such as bricks was buoyant. An expansion of urban water and sewerage works also created demand for water pipes.<sup>45</sup> This growth in demand helped to keep these works profitable and at this stage, because of this, each of these undertakings was kept under government ownership.

When it reported on the undertakings in November 1922, the Auditor-General's Department found heavy losses on the part of some of the undertakings. The report stated that:

The State timber yards and the trawlers have each reached a stage which demands consideration of their future.<sup>46</sup>

It also pointed out that the timber yard in particular faced “violent trade rivalry” and that although the bakery had made a profit in the past, conditions in the industry were becoming especially competitive and that it was likely to become a “losing proposition”.<sup>47</sup>

Despite the concerns expressed about these three undertakings the Auditor-General supported the continued government ownership of the brickyard, the metal quarries and the pipe works. The Fuller Government was guided by the Auditor-General and instead of attempting to improve the performance of the failing undertakings decided to dispose of

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<sup>45</sup> Peter Spearritt, *Sydney Since the Twenties* (Sydney: Hale & Iremonger, 1978).

<sup>46</sup> *Sydney Morning Herald*, 22 November 1922, 22.

<sup>47</sup> *Sydney Morning Herald*, 22 November 1922, 12.

them. It also decided to keep the three profitable undertakings in government ownership. Given this attitude on the part of Fuller and his Government it is probable that it was not ideology or vested interests that were driving the decision to privatise the trawlers, sawmills, timber yard and bakery, but instead it was a desire on the part of the government to reduce the financial burden of the undertakings on the government. Those undertakings that made a positive contribution to the finances of the government were kept in government ownership.

Given the poor financial performance of the undertakings that were sold in 1923 the proceeds of their sale were not expected to be substantial. They were each put out to public auction. In the case of the bakery it was put up for auction on the 2 February 1923 and no bids for it were made. It was subsequently closed by the government and the land sold.<sup>48</sup> This failure to sell the bakery would indicate the state of the industry at this time, and indicates that its operation by the government was a poor proposition.

In the case of the trawlers there were also no bids made for the whole company when it was put up for public auction in February 1923. The government, therefore, decided to sell off each of the undertaking's trawlers individually, and in the end made £33,900.<sup>49</sup> Of the two sawmills the one at Craven was not sold, since there was no bidder when it was put up for auction,

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<sup>48</sup> *Sydney Morning Herald*, 3 February 1923, 13.

<sup>49</sup> *Sydney Morning Herald*, 24 October 1923, 13.

and the Gloucester one was sold for a small amount after only one bid for it was made.<sup>50</sup> Finally when the timber yard was put up for auction there were no bids for it either and so the land and building were sold off instead for £25,000.<sup>51</sup>

Given the manner in which the government assets were disposed of the actions of the Fuller Government in 1923 are better described as being a programme of rationalisation of the state industrial undertakings, rather than a systematic privatisation of them. The government got rid of, as best it could, those undertakings that were operating at a loss. In each case the government experienced difficulties achieving this, and the sales were effectively liquidation sales rather than the sale of enterprises as a going concern.

By the middle years of the 1920s the number of enterprises classified as state industrial undertakings in New South Wales had fallen to just four; the metal quarries, the brickworks, the Monier pipe works and the building construction unit. All four made profits for the government throughout the 1920s, a period of urban expansion, with the brickworks, construction unit and the pipe works being especially successful.<sup>52</sup> In each of these cases they were dependent on government contracts for a large part of their sales, but they regularly undercut the private

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<sup>50</sup> *Sydney Morning Herald*, 6 August 1924, 12.

<sup>51</sup> *The Argus*, 27 October 1923, 30.

<sup>52</sup> In 1927, for instance, the quarries, brickworks, construction unit and pipe works made net profits of £5,254; £13,387; £6,297 and £9,929 respectively. This was a rate of return on invested capital of 2.7, 7.0, 18.6 and 19.0 per cent, per annum: *Official Year Book of New South Wales*, 1927, 418-9.

competition and still managed to generate a profit. The coalition governments of both George Fuller (1922-25) and later Thomas Bavin (1927-30) made no move to privatise these enterprises and were satisfied that they generated sufficient sums for the government, even if they did so in competition with private interests. The government, therefore, had no overwhelming ideological dislike of the state industrial undertakings, but instead was driven in the early 1920s more by a desire to save money at a time of falling tax revenue, and so responded by closing down unprofitable enterprises and maintaining in state ownership those that were profitable. During the mid to late 1920s when urban expansion in Sydney was strong and demand for the products of the works grew steadily conservative governments did not regard the remaining undertakings as a financial burden so retained them in government ownership.

*Privatisations: the second round*

The onset of the depression in 1929 was to change circumstances and bring into question the operations of the four remaining state industrial undertakings. The collapse in building activity and loan financed public works programmes during the depression after 1929 meant that demand and prices for building products fell sharply. The fall in brick prices was especially severe and average brick prices fell from 71 shillings, 7 pence per 1,000 in 1929 to 57 shillings per 1,000 in 1931 and 1932.<sup>53</sup> All four undertakings still made a profit in 1929/30, but in the

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<sup>53</sup> *Official Year Book of New South Wales*, 1934/35, 734.

following year the brickworks made a loss of £3,993. In 1931/32 the Building Construction branch and the pipe works still made a profit, but the other two made sizeable losses.<sup>54</sup> In 1932/33 the building construction branch went into deficit, although the pipe works had moved back into profitability.<sup>55</sup>

With a gradual recovery in economic conditions after 1932 the state undertakings moved back into the black and were either making a slim profit (the pipe works, the brickworks, the building construction branch) or a very minor loss (the metal quarries) in 1934/35.<sup>56</sup> Despite the movement back into profitability of the state industrial undertakings they were affected heavily by financial conditions elsewhere in the public sector. When the Stevens-Bruxner Government came to office in May 1932, New South Wales was in a state of crisis. The Governor, Philip Game, dismissed the Labor Premier in controversial circumstances and appointed Bertrum Stevens as Premier pending an election. When Stevens won the election on the 11 June 1932 the finances of the state were in chaos. In the financial year 1931/32 the Consolidated Revenue Fund was in deficit to the tune of £9.2 million.<sup>57</sup> Expenditure from loan funds had also dropped dramatically from £19.7 million in 1929 to £4.2 million in 1931/32.<sup>58</sup> The Consolidated Revenue Fund was to stay in deficit throughout the 1930s, although it did fall back

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<sup>54</sup> *Official Year Book of New South Wales*, 1931/32, 400.

<sup>55</sup> *Official Year Book of New South Wales*, 1932/33, 336.

<sup>56</sup> *Official Year Book of New South Wales*, 1934/35, 154.

<sup>57</sup> *Official Year Book of New South Wales*, 1931/32, 392.

<sup>58</sup> *Official Year Book of New South Wales*, 1931/32, 405.

to pre-depression levels from 1933 onwards. The Stevens Government, therefore, was faced with collapsing tax revenue and rising demands for unemployment relief.

The Stevens Government responded by implementing a range of measures including the use of an Emergency Relief Work Scheme and the implementation of a Wages and Special Income tax to fund it. A combination of cuts to public service salaries and welfare payment levels helped the government to push the Consolidated Revenue Fund back towards a balance in the years 1932/33 and 1933/34. Despite these measures the government desperately tried to find new ways to fund its relief programmes. This desperation led to a number of conflicts within the government over revenue raising and expenditure. In 1932 for instance, despite the criticism of some church groups, the government decided to continue the state lottery established by Lang as it provided much needed revenue for state hospitals.<sup>59</sup> In 1936 there was a vicious conflict between the Country Party leader and Deputy Premier Michael Bruxner and the Deputy Leader of the UAP, Eric Spooner, and their respective followers, over the rival merits of spending on closer settlement versus relief to urban workers.<sup>60</sup> Finally, although there was some pressure to reduce tax levels in the period the New South Wales Government did not reduce tax rates in the

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<sup>59</sup> J. McCarthy, “Bertram (later Sir Bertram) Sydney Barnsdale Stevens”. In D. Clune and K. Turner, *The Premiers of New South Wales*, Volume 2, 1910-2005 (Sydney: The Federation Press, 2006), 225.

<sup>60</sup> McCarthy, “Bertram”, 226-7.

early to mid-1930s as it was concerned about the high level of the deficit.

What it all amounted to was a conflict over the use of scarce resources in a time of financial stringency. In these circumstances the fate of the state industrial undertakings was sealed. Unlike those sold or closed in 1923 the remaining industrial undertakings were in the black in 1933, and they were quite valuable assets that could be sold and the funds used to prop up government expenditure.

The main motivation for privatisation, therefore, was to raise revenue to expand (or at least maintain) levels of government services. Stevens, however, did make statements that his Government's move to privatise the undertakings was at least in part ideologically motivated. In a statement on the 28 August 1933 he stated that:

Because we recognise the damaging effects of government trading upon industry and employment, we are prepared to allow private enterprise an opportunity to acquire the undertakings.<sup>61</sup>

Stevens, therefore, was prepared to go further than the Fuller and Bavin governments had in that not only would unprofitable enterprises be sold, but even profitable ones would be, in order to aid the development of the private sector. Indeed

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<sup>61</sup> *Sydney Morning Herald*, 29 August 1933, 9.

in August 1933 Stevens advocated the sale of the pipe works which he acknowledged was a profitable concern.<sup>62</sup>

Even though Stevens made public statements that identified him as being more ideologically committed to privatisation than the Fuller and Bavin governments, it should be recognised that his government faced a more hazardous financial position than the governments of the 1920s. This meant that it was forced to undertake more extreme measures to raise short term revenue, even if this meant the sale of profitable state industrial undertakings.

The first privatisation made by the Stevens Government was the shutting down of the Walsh Island dockyard at Newcastle that had run up considerable losses during the depression years. It was closed in 1933 and its machinery and other plant were gradually sold over time. By August 1933 £61,000 had been realised, a fraction of the considerable amounts that had been invested in the yard.<sup>63</sup>

Further moves were undertaken in November 1933 when the New South Wales Cabinet made the decision to dispose of the three works and to transfer the Building Construction branch back into the Public Works Department. To carry this out a special tender committee was established. The Tender Committee for the Sale of State Industrial Undertakings was established when the Cabinet met on 21 November 1933 and

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<sup>62</sup> *Sydney Morning Herald*, 29 August 1933, 9.

<sup>63</sup> *Sydney Morning Herald*, 13 August 1937, 11.

approved the sale of the state industrial undertakings. The Chairman of the Committee was E.A. Barton an accountant who had previously conducted investigations for different governments. The other two members were Gibson, a consulting engineer, and E H Swift, the Under-Secretary of the Department of Public Works.<sup>64</sup> Tenders were called for and closed on the 4 October 1935.

The works were all successfully sold and brought the government significant sums, a consequence of their profitability in the mid-1930s. The State Brickworks, for instance, was sold to Brickworks Ltd., a major competitor of the works, in accordance with the provisions of Executive Council minute No.36 of 4 September 1935, and ceased to be a State Undertaking from midnight on Sunday 23 February 1936.<sup>65</sup> This did not end the story of the Homebush brickworks. In 1946 the New South Wales Government again opened a brickworks at Homebush Bay.<sup>66</sup> This works survived until 1988 when a new phase of privatisations began in Australia. In 1988 the Greiner Liberal/National coalition Government announced that it would

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<sup>64</sup> New South Wales, Parliament, *Parliamentary Papers*, 1937-38, vol. 3. Report of the Department of Works and Local Government for the year ended 30th June, 1936 (Sydney: Government Printer, 1938), 7.

<sup>65</sup> New South Wales, Parliament, *Parliamentary Papers*, 1936-37, vol. 2. Report of the Auditor-General for the financial year ended 30th June, 1936. Part II Accounts of the business and industrial undertakings, administrative and miscellaneous accounts; Audited under the Audit Act, 1902, Trustees Act, 1912, and other statutory authorities (Sydney: Government Printer 1937), 939, 1039.

<sup>66</sup> *State Brickworks Act, 1946*, The Statutes of New South Wales, Act No. 16, 1946

cease the manufacture of bricks and consequently the Homebush Bay plant was closed. Another plant built in the 1960s at Blacktown plant was also sold.<sup>67</sup> The State Monier Pipe and Reinforce Concrete Works was sold by public tender and transferred to Monier Industries Limited from 8 March 1936 when its manufacturing activities ceased.<sup>68</sup> Tenders had been called for the purchase in two lots of the whole of the assets (excluding book debts) of the State Monier Pipe and Reinforced Concrete Works. The two lots comprised the Pipe Manufacturing Factory at Erskineville and certain subsidiary factories established in the country and the General Contracting Plant.<sup>69</sup> The State Metal Quarries were sold to Quarries Limited in accordance with the provisions of Executive Council minute No. 5 of 12 February 1936.<sup>70</sup> The sale was completed on 22 March 1936. The brick works sold for £163,023, the pipe works for £35,000 and the quarries for £169,283.<sup>71</sup>

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<sup>67</sup> New South Wales, Public Works Department of New South Wales, *Annual Report for 1989/90*. (Sydney: Public Works Department, 1990), 21.

<sup>68</sup> New South Wales, *Parliamentary Papers*, 1914, vol. 2, 33.

<sup>69</sup> New South Wales, *Parliamentary Papers*, 1938, vol. 3, 1216.

<sup>70</sup> New South Wales, *Parliamentary Papers* 1937, part 2, 99.

<sup>71</sup> *Sydney Morning Herald*, 21 December 1935, 13. New South Wales, Auditor-General, Accounts of the business and industrial undertakings, administrative and miscellaneous accounts, *Report of the Auditor-General 1935/1936*, A.R. 1936/37, Vol. 2 (State Records of New South Wales, Western Sydney). New South Wales, Parliament, *Parliamentary Papers, 1939-39-40*, vol. 6, Report of the Royal Commission of inquiry into charges of fraud and corruption in connection with the sale of State Industrial Undertakings, 1 March 1938 (Sydney: Government Printer, 1940).

The selling of the enterprises to competing businesses did raise the possibility of that corruption was one motivation for the sales, and accusations were made by the leader of the opposition, former Premier Jack Lang, that the sales were to friends of the government at a gross under value of the worth of the assets.<sup>72</sup> A subsequent Royal Commission of inquiry into the charges of fraud found that the accusations could not be proved, and that the sale prices received were good ones.<sup>73</sup> Indeed some of the unsuccessful tenderers gave evidence before the Commission that the prices paid were higher than they had been prepared to pay for the assets and “the highest valuation any prudent business one would place on it”.<sup>74</sup> The Commission refused to make any judgement on the policy of the sale itself, but limited itself to investigating the legality of the sale process.

The use of the funds raised by the sale provides an indication of the motivation for the privatisations. The bulk of the proceeds of the sales (£442,064) was transferred in the financial year 1937/38 into the Consolidated Revenue Fund and then spent by the Government during that year, rather than be used to reduce government debt or taxes.<sup>75</sup> The financial year 1937/38 saw the largest increase in government spending during the 1930s (an increase of £2 million from the Consolidated

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<sup>72</sup> *The Canberra Times*, 23 December 1937, 2

<sup>73</sup> *Sydney Morning Herald*, 3 March 1938, 8.

<sup>74</sup> *Sydney Morning Herald*, 14 January 1938, 13.

<sup>75</sup> By the end of the financial year 1937/38 only £2,928 of it was left deposited with the Treasury: *Official Year Book of New South Wales 1937/38*, 343, 350.

Revenue Fund).<sup>76</sup> The bulk of this increase came in the form of higher spending on school education and unemployment relief, a large part of which was effectively paid for by the sale of the three state industrial undertakings.<sup>77</sup> The sale, therefore, did not lead to an overall reduction in government intervention in New South Wales, but a redirection of resources from the undertakings, which competed with private businesses, to more social orientated areas of government expenditure.

Although it might be argued that an ideological commitment to promoting private enterprise influenced the behaviour of Stevens and his colleagues, the New South Wales Government's financial position had the greatest influence on their behaviour. By selling the three undertakings it was possible to raise additional revenue at a time when the financial resources of the state were fragile. The fact that the three undertakings were profitable from the mid-1930s onwards just made them easier to sell and the proceeds from the sale more lucrative.

From time to time Stevens and his colleagues did argue that private companies were more efficient than their government-owned counterparts, but the New South Wales Government made no effort to ensure that competition was maintained in the industry but instead sold them to existing competitors who were the most willing to pay for the assets. Achieving the greatest return on the sales, therefore, was the

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<sup>76</sup> *Official Year Book of New South Wales* 1937/38, 344.

<sup>77</sup> *Official Year Book of New South Wales* 1937/38, 344.

chief motivation of the government rather than some concern about levels of competition and efficiency.

## **Conclusion**

In examining the interpretations that have been advanced for privatisation, in the New South Wales case of the 1920s and 1930s, a few can be discounted. The sale of assets was to similar businesses rather than through public floats so the desire to broaden shareholder numbers was not a factor. In addition, the proceeds of the sales were not used to reduce public debt or to lower taxes so these reasons were not important. In terms of efficiency, although the failing enterprises were criticised for their lack of efficiency the profitable ones (like the brickworks and pipeworks) were generally acknowledged as being reasonably well run organisations. Indeed the model of corporatisation used by the New South Wales was one that gave them operational autonomy and enabled the managers to run them fairly effectively. It also meant that privatisation as a means of depoliticising their operation was not a strong motivation, as they were operated fairly free from political interference.

That just leaves a desire to privatise to allow for the financing of government expansion in other areas and an ideological commitment to reduce government involvement in the economy where it involves competition with private business as possible interpretations. In terms of ideology, however,

through most of the relatively prosperous years of the 1920s Fuller Government was tolerant of the operation of state industrial undertakings in New South Wales, only privatising those that consistently made losses. The Fuller Government, therefore, was mainly interested in the financial burden of the loss-making undertakings.

The Stevens Government was also concerned about this aspect, but was also ideologically motivated to some degree by a wish to expand the private sector. Despite this later motivation it is noteworthy that the proceeds of sales were not used to reduce taxes and therefore reduce overall government involvement in the economy, but instead to increase spending in other areas, such as education, public transport and welfare; implying that the government was not interested so much in reducing government intervention in the economy for ideological reasons, but instead redirecting it for political reasons, away from areas where the government was competing with private businesses and towards the delivery of education and public transport services.

Given the budgetary concerns of the government of New South Wales during the 1920s and 1930s the privatisations look similar in character (although far smaller in scale) to some of the privatisations that took place in Australia during the 1990s and 2000s. Although in recent times many privatisations have occurred in order to promote greater levels of efficiency a number have also taken place at times of financial crisis (such as in Victoria and South Australia in the early 1990s), and occurred

in order to provide governments with additional revenue with which they could retire debt and expand public service provision in health and education. In these cases the governments involved faced similar motivations to those governments in New South Wales in the 1920s and 1930s, which sought to reduce the financial burden of the state industrial undertakings and raise revenue for spending in other areas.

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### **About the Author**

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**Table 1: State industrial undertakings in New South Wales**

	<i>Capital Invested</i> £		<i>Net Profit</i> £	<i>Opened</i>	<i>Closed or reclassified</i>	<i>Notes</i>
OPERATING IN 1921/22						
Bakery	21,794		457	1914	1923	Closed after no bids made.
Brickworks (Homebush)	103,312		10,917	1911	1936	Sold for £163,023
Building Construction Branch	32,099		7,720	1913	1936	Ceased to be an industrial undertaking. Transferred to Department.
Clothing Factory	13,635		6,264	1902	1923	Ceased to be an industrial undertaking. Transferred to Department 1923
Metal Quarries	144,504		8,041	1911	1936	Sold £169283
Monier Pipe works	42,051		3,198	1914	1936	Sold for £35,000
Motor Garage	9,024		2,987	1914	1923	Ceased to be an industrial undertaking and transferred to Department.
Power Station (Uhr's point)	32,505		-751	1914	1926	Closed
Sawmills	66,918		-6,997	1919	1924	Closed
Timber Yard	179,708		-90,297	1913	1923	Land and buildings sold for £25,000
Trawlers	206,793		-64,328	1915	1923	Sold for £50,000
Walsh Island Dockyard				1921	1935	Only briefly a state industrial undertaking
State Drug Depot	188		2123	1917	1923	Ceased to be an industrial undertaking and transferred to Department.
CLOSED BEFORE 1921/22						
Timber & Joinery works (Rozelle)	-		-	1912	1914	Bought from the railways, destroyed in fire. Surviving assets transferred to Timber Yard.
Sandline brickworks and limeworks (Botany)	-		-	1912	1915	Closed as it was found impossible to produce lime at a rate that would meet expenses.
Limeworks (Taree)	-		-	1912	1917	Leased to BHP
TRANSFERRED BEFORE 1921/22						
Observatory Hill, Resumed area	-		-	1900	1917	Became an industrial undertaking in 1914. Reclassified 1917.
Housing Fund	-		-	1912	1917	Became the Housing Board in 1917, and then abolished in 1924.
Murrumbidgee Irrigation	-		-	1910	1919	Became an industrial undertaking in 1916. Reclassified 1919

Source: R.S. Parker, "Public enterprises in New South Wales", *Australian Journal of Politics and History*, 4(2) (1958): 208-223. New South Wales, *Official Year Book of New South Wales, 1921/22* (Sydney: Government Printer, 1922), 68.