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John Howard: The Great Privatiser?

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This article outlines and analyses the principles that have driven John Howard’s privatisation agenda in the context of the broader Australian experience. Howard has articulated a vision for the state in which individual choice has primacy over collective decisions, governments are strategic and the public sector is focused more on enabling or facilitating than on directly delivering public services. In this article we identify Howard’s articulated vision and contrast this to his time in government to address the question of whether he has, in fact, been a great privatiser. By adopting a broader framework for analysing privatisation, we argue that his vision has, in part, been enacted during the past decade through the politically strategic use of a range of privatisation technologies.

Introduction

[The coalition . . has . . embraced a full-blooded policy of privatisation. We do not have a Clayton’s privatisation policy . . we have a full-blooded privatisation policy that will offer enormous incentives and benefits. (Howard 1989)]

Privatisation has emerged across the world as an important means of restructuring and reforming public sectors (Pollitt and Bouckaert 2004). Its adoption, in various forms, has underpinned a radical and fundamental restructuring of states through the use of contracts, competition and market-based systems of governance (Walsh 1993). The rise of the ‘new public management’ (NPM) provided a framework in which privatisation became seen as a legitimate and potentially lucrative means of increasing the efficiency and effectiveness of the state. This reflected, in part, the emergence of new principles governing notions of the public sector including: the belief that economic markets were the model for viewing relationships in the public sector; that policy making, implementation and service delivery were simply transactions that could be connected via contracts; and new administrative technologies were available to enact change (Kaboolian 1998).

Australia has not been immune from such trends and Australian governments have, since the 1980s, drawn heavily on the menu of practices associated with the NPM to initiate their reform agendas. During their years in government, Labor began the
privatisation program, using it to enact their widespread microeconomic reform agenda. However, the successive election of Howard Coalition governments has seen privatisation advanced as a major strategy in reconfiguring the public sector and we have witnessed the government’s use of a range of privatisation types to promote change.

Analysis of public documents shows that ideology has played a critical role in Howard’s privatisation policy, reflecting his stated preference for private over public and his desire to remove the shackles of government to enable individual choice (Liberal Party and National Party 1988). Over time, however, Howard’s privatisation approach has also reflected the development of his political pragmatism and his ability to read the mood of the electorate, thereby tempering his earlier view. It is here then, at the intersection between principle and pragmatism, that we can make some assessment of whether or not Howard has been a ‘great privatiser’.

The article is arranged into four sections. The first provides a discussion of the privatisation principles that have underpinned the Australian experience, noting the changing motivations over time. The second section provides an overview of the privatisation concept and introduces a more sophisticated frame of analysis, drawing on a range of privatisation types and technologies. The third section sets out a detailed analysis of three of the types of privatisation used in Australia and the technologies employed to implement them. The final section outlines key conclusions about the impact of a decade of intense privatisation activity and considers whether, in practice, Howard has been a great privatiser.

From Tactical to Systemic Privatisation: The Drivers of Privatisation in Australia

The Howard government has a sharper ideological edge than the former Fraser government. If Fraser’s rule was defined by hard men, Howard’s rule is defined by hard ideas. (Kelly 2006, 10)

Although the Australian divestment story began under Labor governments, the opening up of the full spectrum of privatisation technologies flourished under the current government in its pursuit of ‘private ends’. Labor’s goals were primarily concerned with making Australia’s economy more globally competitive. Privatising some public enterprises were, in effect, ‘tactical privatisation’, employed to achieve these broad macroeconomic goals (see Feigenbaum, Henig and Hamnett 1999), and were focused on more socially inclusive ends (Greenfield and Williams 2003). We argue that privatisation has since been used by subsequent conservative governments to pursue a major reconfiguration of the balance between public and private or, as Feigenbaum et al. (1999) would argue, ‘systemic privatisation’.

Labor governments initiated the privatisation agenda during their uninterrupted control of the Treasury benches from 1983–1996. Driven by what they saw as global economic imperatives, these governments adopted a number of strategies to make the Australian economy more internationally competitive. Floating the Australian dollar, unilaterally reducing import duties, initiating a comprehensive microeconomic reform program, and liberalising the airline and banking sectors to allow ‘foreign’ entrants1 were all part of a thrust to modernise the Australian

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1Although in the cases of both Qantas and the Commonwealth Bank, this liberalisation policy was a precursor to divestment.
economy. Integral to this program of reform, a number of iconic Australian public enterprises were divested (e.g. the Commonwealth Bank and Qantas) whereas others were placed on a more commercial basis. Those enterprises which were not able to operate commercially because of community service obligations or which were operating in environments that were not contestable, remained in public ownership (e.g. Telstra and Australia Post).

During the Hawke–Keating era, it has been argued that the question of ownership was subservient to the question of efficiency, and there was a rejection of the notion that private ownership was inherently more efficient (Walsh 1986; 1987). Rather, competition was the key driver for the Labor privatisation program and it was later enshrined in the *Competition Principles Agreement* of 1994. These competition principles were also captured in the Industry Commission’s report *Competitive Tendering and Contracting by Public Sector Agencies* (Industry Commission 1996), which encouraged the increased use of competition in the public sector and was endorsed by Labor shortly before it lost government. When Labor began its privatisation program, however, there was intense opposition from within the party’s ranks with the microeconomic reforms, which were seen by some as betraying traditional Labor policies and constituents (Quiggin 2001). Indeed, all parties introducing privatisation have had these policies contested by some traditional constituents: some Nationals concerned with maintaining public services to the ‘bush’ and some Liberals with the transformation of ‘selfishness and greed from vices to dynamic, entrepreneurial virtues’ and with the reconception of citizens to consumers (Brett 2003, 167).

The election of the Howard government in 1996 brought with it a different set of privatisation drivers. Paul Kelly has noted that in the Howard government ‘the primary ideas flow from the top downwards’ and that ‘Howard uses Cabinet as an instrument of his authority...obedience and unity’ (2006, 7), so we can assume that Howard himself has had a pivotal role in setting the privatisation agenda over the past decade. This is not surprising given his long-term support for widespread privatisation in Australia; arguing that privatisation would act as an important protection against the erosion of basic rights. As he argued, ‘freedom and personal responsibility require private ownership of property’ (Liberal and National Party 1988, 12). Some have labelled this preference for private over public as ‘economic fundamentalism’ (Greenfield and Williams 2003, 279), perhaps forged by his experience working in his father’s small business (a petrol station) during his younger years (Nortington 2006)—an experience which echoes British Prime Minister Margaret Thatcher’s observations of her childhood experiences in her father’s grocery store. Regardless of its genesis, analysis of more than two decades of his speeches and policy documents show a steady philosophical commitment to the notion of ‘private’ and his desire to foster incentives, choice, competition, customer-oriented public services, and privatisation. In his role as Treasurer more than two decades ago, for example, he advocated small government on the basis that public activity was often able to crowd out private enterprise (Howard 1981a), and arguing that enterprise does not come from the public sector:

> This Government has recognised from the outset that if one believes in allowing the private sector to provide the wherewithal for economic recovery, it has to be given

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2This may be contrasted to the private views of Keating. Conley argues, for example, that during the 1980s, Keating downgraded the role of the public sector and that he was a great believer in the market as the best allocator of resources (see Conley 2001, 240).
room to move and grow, and the demands of the public sector on the community have to be reduced. (Howard 1981b)

Interestingly, by the mid-1990s, just prior to taking government, Howard argued that rather than viewing government as a means of curtailing liberty or choice, we should consider how government could be used to ‘expand individual choice, freedom and opportunity’ (Howard 1995). Although he conceded that his party was not ‘blindly hostile to government...they are profoundly suspicious of what government can achieve’ and that government ‘should always be strategic and limited’ and focused on providing ‘a framework which enables the maximum range of choices’ (Howard 1995). Thus, Howard’s agenda has been strongly focused on linking privatisation with his preference for individual choice, market exchange and private decision-making over more collectivist social exchange notions that had traditionally characterised Australia’s experience with nation-building. Partly, this reflects Howard’s belief that individual market actors make superior decisions to state actors:

The belief of members on this side of the House in the innate capacity of individuals to make better decisions about their future than the capacity of governments but also that individuals [are] much better placed to make decisions than government. (Howard 1981c)

As Shadow Treasurer in the 1980s, Howard gave a detailed articulation of his privatisation agenda, which provides an important frame for thinking about the Australian privatisation experience under his leadership. He argued that privatisation had two key goals:

The first is to achieve a more efficient balance between public and private use of our resources by...[p]rogressively allowing the private sector to do and own those things which the private sector does better and more naturally owns, and Restricting the public sector to those functions which appropriately belong to it. ..The [second] goal of privatisation is to improve the quality and choice of services to consumers. (Howard 1985, emphasis added)

The vision, very clearly set out in Opposition, was for privatisation to reduce the scale, scope and size of government and to reinstate the importance of enterprising private individuals. He argued that ‘the Liberal seeks first the private enterprise solution’ on the basis that ‘governments do not provide enterprise; they provide controls’ (Howard 1985). He specifically argued for privatisation as a driver for increasing individual choice, opportunity and incentives:

Privatisation not only entails the transfer of publicly owned assets to individual Australians. It also makes possible the provision of incentives and opportunities for individual Australians to obtain services in the private sector as an alternative to those available in the public sector. (Howard 1985)

Howard’s policy manifesto in the late 1980s, when he was Leader of the Opposition for the first time, provided more clues to his privatisation vision. It was clear that his preference for private over public was deeply rooted. It became obvious that privatisation was something that would be constructed more broadly under his leadership and that the end goal would be focused squarely on giving primacy to the ‘private’.
This meant that the mechanisms of privatisation would be used as instruments for achieving this vision:

> Our support for privatisation is based on our fundamental commitment to a shift in power and wealth from the state to individual people: to reducing the power and extent of government; and extending opportunities, choice and incentive for the individual. (Liberal Party and National Party 1988, 48)

These arguments created the basis for his policy framework and they were especially important in areas such as health and education policy in which Howard argued for more choice for families. In 1988, for example, he claimed that the universal healthcare scheme, Medicare, distorted consumer signals and that the coalition would ‘re-establish the provider–consumer link between doctors, hospitals and patients’ by encouraging and rewarding private insurance (Liberal Party and National Party 1988, 20). A similar argument was made in relation to education, with Howard making a strong case for encouraging ‘genuine choice’ for parents (Liberal Party and National Party 1988, 23). His choice and incentive arguments also underpinned his vision of creating a capital-owning democracy through the sale of government enterprises (Liberal Party and National Party 1988). This was not a case of ‘getting rid’ of assets but opening up exciting opportunities by allowing individuals to be involved ‘in the ownership of some of their greatest national utilities’ (Howard 1985) at the same time as ‘exposing government business operations to the winds of efficiency, competition and change’ (Liberal Party and National Party 1988, 48–9).

In his most zealous moments, he has argued that privatisation and private ownership act as a protection against the erosion of basic rights and freedoms: ‘freedom and personal responsibility require private ownership of property’ (Liberal Party and National Party 1988, 12). As he stressed in one of his headland speeches, ‘Australians may not want government out of their lives, but they do want it off their back’ (Howard 1995). Despite his small government belief and his preference for private over public, Howard has also claimed that he does not believe in privatisation for privatisation’s sake.³ This is even though he has staked a claim to implement ‘the most vigorous privatisation program undertaken by any national government’ (Howard 1989). Instead, he argued that Coalition decisions on privatisation would be driven by three principles:

1. Privatisation must be in the public interest, there should be benefits for consumers and increased competition.
2. Employees should be offered preferential access to shares to improve productivity and participation.
3. Quality must improve overall, and rural and remote areas should not suffer deterioration in services.⁴

A measured political approach developed in the mid-1980s as Howard became aware that privatisation was worrying the electorate. For example, in 1985 he claimed that the Labor government had started a ‘concerted campaign to misrepresent and distort the effect of the Liberal Party’s commitment to privatisation’ (Howard 1985). This

³He later argued that he did not see economic rationalism as a ‘stand alone credo’ or an end in itself, but rather a means to an end (Howard 1995).
⁴These have been articulated many times by Howard, see for example, Commonwealth Parliamentary Debates, House of Representatives, 26 May.
demonstrated to him that to implement his vision of privatisation he would need to
develop better communication with the Australian people, and he subsequently
invested considerable time in ensuring that he did not appear to be an ideologue
by developing a sophisticated communication strategy:

We are not engaged in some ideological binge with the aim of selling off every gov-
ernment-owned body we can lay our hands on... an apparent obsession with purist
dry ideology can create a communication void with sections of the electorate and an
appearance of insensitivity to the needs of people. (Snow 1985)

We’re not walking away from privatisation, but we’ve learned something about
marketing it. The way to handle it is portfolio by portfolio. When you talk about
communication you say what you are going to do with Telecom, and so on. If it
is put up as a general thing it can get kicked around. (Randall 1986)

Following his election in 1996, Howard has ensured that privatisation has played a
critical role in his policy agenda through the extensive use of a range of privatisation
technologies. However, in the past decade he has refrained from any major speeches
on the topic, instead taking his own advice to approach privatisation on a case-by-
case basis. His strategy has been to shift from ideologue to political pragmatist,
and in this shift he has driven a major privatisation program in Australia that is in
line with the principles he had earlier enunciated.

Privatisation Technologies: The Instruments or Mechanisms of Privatisation
Privatisation refers to ways in which there are substitutions for government-owned,
government-funded and government-provided services by non-government agencies
and private funding mechanisms (Aulich 2005). In the Australian context, we have
identified three key types of privatisation with which we associate five privatisation
technologies (Fig. 1). The first type, substitution for public ownership, encompasses
both divestment and withdrawal. Divestment involves the selling of public enter-
prises and these cases involve a change in ownership of the enterprise; that is,
public to private. The second technology involves the withdrawal from service deliv-
erly by governments and, like divestment, is based on a judgement that it is no longer

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Figure 1. Privatisation types and technologies.
appropriate for governments to continue to provide such services (although in some instances government has remained as a regulator).

The second type of privatisation, substitution for public provisions, incorporates two privatisation technologies; that is, outsourcing and liberalisation. Outsourcing is the private provision of public services delivered previously by government agencies, whereas liberalisation involves the abolition or relaxation of public monopolies. Where liberalisation occurs, governments may continue a role as a provider of services, but it is conditional on the public providers operating successfully in a competitive market.

The final type of privatisation identified is substitution for public funding and is typically associated with user-pays. This involves substitution of customer or user fees for tax finance and signals that governments are no longer willing to provide these services by right to individuals (or businesses), preferring rationing through user-charging or private funding by consumers.

The last three technologies (i.e. outsourcing, liberalisation and user-pays) may be distinguished from the first two (i.e. divestment and withdrawal) in that they do not signal an end to public sector control over what is produced and a withdrawal from providing the resources necessary for producing it. The last two technologies (i.e. liberalisation and user-pays) can be distinguished from outsourcing by the potential for public agencies to have a continuing involvement in the direct delivery of public services.

Changes in Public Ownership: Selling Off the Family Silver?

Privatisation is not an exercise in selling off the family silver in order to reduce expenditure. It is not an exercise in raising money to finance tax cuts. It is not an exercise in blind ideology. (Howard 1985)

The Australian experience with privatisation over the past two decades has been extensive both in terms of scale and scope and nowhere more obvious than in the divestment of public enterprises. Although this was introduced under both Labor and conservative governments and at both national and State government levels, it is perhaps more important to consider what motives might have driven the privatisation agenda so far.

Public enterprise has a long and important history in Australia. The establishment of a British settlement far from its capital markets, together with the slow development of domestic industry, meant that services in the new colonies were dominated by public provision. At critical times in our history, public enterprise played a nation-building role, as Bland has noted:

[T]he first two or three decades after 1788 saw State activity in excelsis. The Government fed, clothed and employed everyone. It cleared and cultivated farms; it bred and reared flocks; it built and ran mills; it discovered and developed mines. (Bland 1945, 203)

From these early colonial days, the notion of ‘public’ has been central to the Australian experience. In particular, public enterprise has been seen as a vital part of nation building, with some major infrastructure projects becoming part of national folklore. By the late twentieth century, Australian governments managed a range of public enterprises: some operating in direct competition with private providers in
areas such as banking, insurance, shipping, airlines and private medical insurance, whereas others were monopolies, such as those in water and electricity, railways, airports, postal services and telecommunications.

The past two decades, however, have witnessed a dramatic shift from this affection with public enterprise, and with the notion of ‘public’ more broadly. At the national level, the first divestment push was initiated by Labor, who oversaw the privatisation of a number of iconic public enterprises with the sale of the Commonwealth Bank and Qantas, yielding about $6.7 billion 1988–1996 (see Appendix 1), conducted as part of Labor’s microeconomic reform program.

Following Howard’s election in 1996, however, divestment took on a rapid pace, which is not surprising given his promise to set a small government tone immediately on taking office and the identification of a privatisation ‘hit list’ in the 1980s. In its first Budget, the Howard government announced that it would be selling off most of the commercial enterprises within the Department of Administrative Services, covering such diverse functions as car fleet and property management and maintenance. The simplicity of this approach was illustrated by the Minister for Administrative Services, David Jull, who said that he took a ‘yellow pages’ approach to public enterprises: if such services were advertised in the yellow pages, there was no reason for them to be provided by government (Taylor 1997).

This period immediately following Howard’s election (i.e. 1996–98) represented the biggest disposal of public enterprises in Australian history, providing huge windfalls for the government, with the sales of public enterprises such as the national shipping line ($20.7 million), Australian Defence Industries ($346.8 million) and the partial sale of Telstra ($16,000 million). Divestments included departmental units (e.g. most of those agencies that provided services to the public sector such as car hire, parliamentary travel services and office removals), government business enterprises (GBEs) or statutory authorities such as the airports (which were divested on a 50-year lease basis), ANL Ltd (the Australian Shipping Line), the National Rail Corporation and Radio National (see Appendix 2).

The divestment strategy underpinned decisions to sell 57 government-owned properties, which were all justified on the grounds that retention did not constitute ‘core government business’ and that there were private sector organisations able to provide alternative supply. A major area of divestment occurred in the sales and leaseback arrangements being entered into by a number of agencies. An Auditor-Generals’ report raised some cautions about this practice and suggested ‘the cumulative rental outlays would outstrip the value to the Commonwealth of the sale proceeds and any earnings from their reinvestment’ (ANAO 2001, 5.39).

Perhaps the most significant of all these divestments was the partial privatisation of Telstra, whereby the first tranche of one-third of the government-owned telecommunications corporation’s shares were floated on the stock exchange. Subsequently, a further 16.6% of the government shares were sold, reducing the government stake to 50.1%. This second tranche of 2.133 billion shares was the largest share offer in Australian corporate history and one of the largest share offers in the world in

5In 1988, Howard set out his privatisation ‘hit list’, which included: AUSSAT, Australian Airlines, Australian Industry Development Corporation, Australian National Line, the Commonwealth Bank, Domestic and International Airport Terminals, Housing Loans Insurance Corporation, Medibank Private, the Overseas Telecommunication Commission (OTC), Pipeline Authority, Qantas, and the Snowy Mountains Engineering Corp. (Liberal Party and National Party 1988, 49).
More than 1.48 million individual buyers were involved in the sale, producing sales revenue of about $16 billion (OASITO 2001, 16). This contributed to the claim that Australia had become the world’s leading shareholding nation (ASA 2000, 19), although for many involved, the investment has soured with the fall in prices since the float. This growth of share ownership in the community fits well with Howard’s goal of creating a ‘capital-owning democracy’ (Liberal Party and National Party 1988).

The sale of the second tranche was not without major negotiations with independents, who then held the balance of power in the Senate. Both Senators Harradine and Colson were able to exploit their critical votes to endorse the sale by negotiating enhancements for their constituents. Following on from achieving the majority in the Senate, Parliament approved the sale of the remainder of the government’s share of Telstra. In August 2006, it was announced that around $8 billion worth of shares would be sold to institutional and retail investors later that year with the remaining shares to be shifted to the government’s ‘Future Fund’ to sell over time. When the sale took place in November 2006, the government almost doubled its predicted return, realising $15.5 billion through the sell-off. However, it was argued this reflected, in part at least, guaranteed dividend payments to attract investors and the $250 million spent on incentives and rewards for stockbrokers (The Australian 2006).

Australia has become identified as one of the world’s most active privatising countries, with the national government being responsible for more than half of the $85 billion raised from the divestment of Australia’s publicly-owned enterprises in addition to about $100 billion raised through the sale of State-owned assets (Gordon 2005). Indeed, the privatisation agenda was so dominant in Australia in the first few years after the election of the Howard government, that the principal driver of the mergers and acquisitions market was divestment of publicly owned organisations. In 1997, this constituted 13% of the total global market, placing Australia second only to Brazil (J.P. Morgan 1998, 25). We estimate the total returns from divestment since 1996 at more than $61.6 billion (Appendix 2), and note that much of the windfall has been applied to debt reduction. Indeed, the government announced in 2006 that the national debt was zero, down from $96 billion when it assumed office (The Herald Sun 2006).6

Although his policy of divestment has continued since 1996, the number of disposals has currently slowed, probably a reflection of the reduced number of eligible public enterprises remaining rather than because of any lessening in enthusiasm for divestment. That said, two significant potential privatisations made headlines in 2006—the privatisation of Medibank Private and the sale of the government’s share of the Snowy Hydroelectric scheme. Cabinet approved the sale of Medibank Private early in 2006, although it was announced in September that the sale would not proceed until after the next election. Howard also surprised many when he changed his mind on the sale of the Snowy Hydro scheme in June. He argued that this change resulted from his appreciation of the depth of ‘public disquiet’ on the sale of the national icon—much to the dismay of the Victorian and New South Wales Labor governments, who were well advanced in planning the sale and the

6 An additional $1.5 billion was allocated for environmental improvement programs and $671 million was provided for ‘social bonus’ to be allocated to prescribed purposes (Fahey 1998, 246–8). In the final sale, $2 billion has been earmarked for improving rural telecommunications.
expenditure of funds from it.\textsuperscript{7} Given its enthusiasm for divestment, and following the sale of the remainder of Telstra, there will actually be little for the Howard government to sell besides Australia Post and the Australian Submarine Corporation.

**Changes in Public Provision: Outsourcing and Competition**

Introduction of a competitive tendering and contracting framework for the provision of government services will ensure that the government will receive the best possible services. At the Commonwealth level, every service of government is potentially open to competition. (Senior Public Servant cited in Aulich 2000, 166)

Outsourcing is probably the most common yet most complex form of privatisation utilised by modern governments. It involves competition between potential providers and the choice of a (usually) private provider to deliver the public service. For a number of non-core services private sector providers were sought to replace the public providers, which had traditionally delivered these services. Under the Howard government, two key tests have been applied to publicly provided services: is it appropriate for the government to continue providing this service? If so, how can it be exposed to greater market pressures?

One of the most wide-reaching and complex outsourcing projects attempted in Australia was that of information technology (IT) services.\textsuperscript{8} In part, the attractiveness of applying outsourcing to this area stemmed from its budget size across the Commonwealth, and the potential for cost savings that were anticipated by Finance Minister Fahey to be the order of $1 billion over 7 years (Fahey 1997, 1). Planning for this project had, in fact, begun under Labor, whereby one of the primary rationales was said to be ‘tactical’ in that it was an opportunity to develop the Australian IT industry through outsourcing (Aulich and Hein 2005). When it was announced in 1997, the IT initiative was focused on ‘achieving long term improvement in the structuring and sourcing of IT services…to facilitate greater integration in the delivery of programs and realise significant cost savings’ (ANAO 2000, 5). Furthermore, it was ‘aimed at complementing modern management practices within the Commonwealth Public Service and enhancing access to wider technical skills and technologies’ (Humphry 2000, 4). However, the motivations of the Howard government are best described as ‘systemic’ or ideological, demonstrated by the requirement placed on agencies to allow only private sector contractors to compete for tenders; a direction enforced despite much resistance from the public service.

The IT initiative was highly problematic during its implementation and several critical reports were handed down, including one by the Audit Office (ANAO 2000), which downgraded the potential savings to just $70 million, and an independent review (the Humphry review), which recommended major reform to the program. These critical reviews were seen as ‘a huge win for the rest of the bureaucracy, particularly the Secretaries and the Unions’ (Burgess 2001), but lamented as a ‘lack of buy-in by senior agency management’ by the Minister (Fahey 2001). The effect of these challenges and critiques saw the government switch from its highly ideological commitment to outsourcing to a more ‘pragmatic’ approach based on

\textsuperscript{7}As reported on the Lateline TV program broadcast by ABCTV on 2 June 2006.

\textsuperscript{8}This included the supply of all government computer infrastructure, from mainframes to desktops, in large ‘whole-of-cluster’ deals.
agency needs and more in line with its initial rhetoric. Even though agencies were still required to engage in outsourcing, the responsibility for this was devolved to them, enabling them to tailor this process to their individual agency needs. The end result has been a measured ‘market testing’ approach reflective of agency needs and market characteristics (Aulich and Hein 2005). This pragmatic approach has become the driver behind subsequent outsourcing initiatives for other corporate services.

A second major experiment with substitution for public provision was the creation of the Job Network by the Howard government, which enabled an opportunity for non-government providers to compete with government providers to deliver employment services to jobseekers—previously a monopoly service of a government agency, the Commonwealth Employment Service. Tenders were called from a network of government and non-government providers to deliver $3 billion of Job Network services (Productivity Commission 2002). A public corporation, Employment National Ltd, was formed to compete with non-government agencies for the right to provide services for the unemployed. However, the market share to Employment National fell from 8% in 1999 to 3% in 2003, the remainder of contracts being won by organisations in the private and not-for-profit sectors (DEWRSB 1999; DEWR 2003). Eventually, Employment National was closed, as it was unable to compete successfully for contracts in the Job Network, representing an example of withdrawal of government service providers in favour of outsourcing to non-government providers.

This privatisation technology has led to a steady transfer of service provision to the private sector, with significant public funds now financing private providers of public services. For example, in the period 1999 to 2004 the value of outsourced business services for central agencies alone rose from $3.7 billion to $5.7 billion (AusTender 2006). As Taylor commented:

It has been almost imperceptible, but little by little the Howard [g]overnment has been transferring responsibility for public service delivery to the private sector. While abolition of the Commonwealth Employment Service and the creation of the Jobs Network represented the biggest transfer of responsibilities to private sector providers, there is ample evidence of a growing trend across a range of portfolios. (Taylor 1999, 9)

There has been criticism of the failure to fully and formally evaluate these policies. Although the Humphry Review did make an assessment of the savings in relation to the IT initiative and there has been a thorough evaluation of the Jobs Network program, there is little analysis or publication of projected whole-of-government savings for the current corporate services and IT initiatives to date. What is clear is that there are motives beyond costs savings that have driven the outsourcing and market testing initiatives. As Bisman (2003) comments, political factors such as the importance of special interest groups, community political sentiments and the political power of public employees have been significant in the Australian context in establishing an outsourcing regime that is perhaps more pragmatic than its designers had intended. Again, this underlines the capacity of Howard governments to moderate their ideological preferences in response to political realities.
Changes in Public Funding: Citizen to Customer?

There are many hundreds of thousands of people in this community who are prepared to make additional sacrifices to exercise a freedom of choice. (John Howard MP, Member for Bennelong 1974 in Maiden 2006b)

The Howard government has nurtured values that give primacy to the worth of private over public (or collective) activity. Individual users, or customers, are now required to make higher contributions to many of the public services they receive—services that are now also less likely to be delivered by public sector providers. This market exchange is steadily supplanting the traditional notions of entitlement, which have hitherto buttressed the Australian welfare state.

The Howard governments have made increasing use of the user-pays type of privatisation, with further developments planned to increase customer contributions and cost recovery regimens. The decreasing contribution made by government to some services has meant that users are required to assume a greater responsibility for self-funding some public services, with the consequence that non-payers can be excluded. A prime example of this kind of privatising activity can be seen in the revamping of the Higher Education Contribution Scheme (HECS), which had been introduced by Labor, to ensure that university students make a higher private contribution to their own education. Furthermore, the option for universities to set aside places for full fee-paying Australian students also has the effect of shifting costs from public to private. This cost shifting results in families and non-government agencies having to accept a more significant role in the provision of public services, with the government moving further away from universal provision. This enhances the role of private choice in the selection of those public services that citizens might engage.

Another interesting development has been the adoption of a cost recovery strategy by the government, whereby government agencies made attempts to recover costs from users. In the years from 1996–2000, cost recovery procedures under the Howard governments ‘ratcheted upwards’ by 24% in real terms, exceeding $3.2 billion that was raised in 1999–2000 (Productivity Commission 2001). Almost all agencies, whether government departments, industry regulators or information agencies, attempted to recover some of their costs via this process, which could reflect either or a combination of the following:

(1) an increased financial burden on existing clients or customers;
(2) the generation of ‘new business’ by entrepreneurial agencies; or
(3) inter-agency charging.

However, given the existing reporting requirements, it is not possible at this stage to actually determine the weighting of these forms of cost recovery, although the overall growth of user-pays has been clear.9

Following from this general increase in charging users and, in response to a report by the Productivity Commission in 2001, the Howard government adopted a formal cost

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9For some activities, such as those undertaken by the Therapeutic Goods Administration, the target recovery rate was set at 100% of operating costs (Productivity Commission 2001). In others, such as the Australian Securities and Investments Commission or the Australian Prudential Regulation Authority, the revenue from Cost Recovery processes exceeded total operating expenses. The National Industrial Chemicals Notification Assessment Scheme brought in $3.7 million in 1999–2000, and is set to return $6.2 million in 2005–2006 (DHA 2006).
A recovery program in December 2002 aimed at increasing the extent to which agencies can fund services through user-charging. Under the new cost recovery (CR) guidelines, agencies should set charges to recover all the costs of products or services where it is efficient to do so, with partial CR to apply only where new arrangements are phased in, where there are government endorsed community service obligations, or for explicit government policy purposes. (DoFA 2005)

This growth of cost recovery impacts on the relationship between governments and their communities by reducing the number and extent of services by right or entitlement available to citizens, in favour of the purchase of public services by customers undertaking regular market transactions. It also represents an important expansion of this form of privatisation.

The explicit favouring of privately provided services, in particular health and schooling, over their public counterparts, has added to the growing acceptance by the Australian community of the superiority of private provision. For example, during the Howard decade around 200,000 students have shifted from the public to the private education sector (increasing enrolments in private schools by 22%) and Howard government spending on private schools doubled to $4.7 billion by 2005 (Maiden 2006a). This acceptance has been fuelled by significant support from public funds to assist those making choices to utilise private provision in health and education, representing the substitution of private by public funding and use of government funds through subsidy to pursue ‘private’ ends. It is possible that the goal for this approach is to have private provision dominate health, education and like services, based on user-pays principles, with public provision serving as some safety net for those unable or unwilling to pay.

Conclusion

Although privatisation initiatives began under the Hawke–Keating governments, successive conservative governments have considerably accelerated the process. One result of this privatising activity is that the public sector is now smaller through ‘significant functional cuts, efficiency improvements and contracting out of functions’ (APSC 2003, 53–4). The national government has lost employment share and there has been a decline by 40% in absolute public sector job numbers from 422,000 in 1984 to 251,000 in 2005 (Kryger 2005). Both Labor and Coalition governments have expressed a commitment to privatisation despite some concerns raised by traditional party supporters. Howard has stepped up both the scale and scope of privatisation technologies employed to pursue his clear preferences for that which is private. The early Howard governments favoured large-scale divestment of publicly owned enterprises and the initiation of the whole-of-government approach to outsourcing. The introduction of other privatisation technologies reflects some frustration of government intentions that have impeded government progress towards a smaller, enabling or hollowed ‘residual’ state.

Subsidies to private health insurance have been estimated at $2.3 billion (Morrissey 2006); private education at $5.5 billion (Treasury 2005); private childcare at $1.4 billion over 4 years (Treasury 2005). The impact of privatisation and other reforms on the size of government has been contested. For example, Keating (2004) argues that if government expenditure as a percentage of GDP is taken as a measure of size, and taking business cycle effects into account, there has been little change.
However, it also demonstrates the determination of the Howard governments to achieve their privatisation goals and their pragmatism in the use of means to reach these goals.

A key feature of the privatisation experience has been its focus on the broad question of the role of government. It has opened the questions of ‘re-examining what government should do and pay for, what it should pay for but not do, and what it should neither do nor pay for’ (Rivlin cited in Vertigan 1999, 61). The Australian experience, especially over the past decade, has shown that governments will use a sophisticated mix of privatisation technologies in pursuit of their private goals. In this sense, we can argue that Howard has indeed been a great privatiser.

References


Howard, J. 1985. Address by the Hon John Howard MP, Shadow Treasurer and Leader of the Opposition to the National Press Club, Canberra, 28 August.


Appendix


<table>
<thead>
<tr>
<th>Date</th>
<th>Item divested</th>
<th>Proceeds (A$m)</th>
</tr>
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<tbody>
<tr>
<td>April 1988</td>
<td>Commonwealth Accommodation and Catering Services</td>
<td>14.9</td>
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<tr>
<td>November 1988</td>
<td>Defence Service House Corporation Loan Portfolio</td>
<td>1,515</td>
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<tr>
<td>June 1989</td>
<td>AMDEl</td>
<td>0.92</td>
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<tr>
<td>May 1991</td>
<td>Australian Defence Force Home Loan Franchise</td>
<td>42 (plus annual commission payments)</td>
</tr>
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<td>June 1991</td>
<td>Commonwealth Housing Loan Assistance Schemes (ACT)</td>
<td>47.3</td>
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<tr>
<td>September 1992</td>
<td>Australian Airlines</td>
<td>400</td>
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<tr>
<td>March 1993</td>
<td>25% Qantas</td>
<td>665</td>
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<tr>
<td>October 1993</td>
<td>Commonwealth Bank Secondary Public Share Offer (2)</td>
<td>1,700</td>
</tr>
<tr>
<td>November 1993</td>
<td>Snowy Mountains Engineering Corporation</td>
<td>1.5</td>
</tr>
<tr>
<td>June 1994</td>
<td>Commonwealth Serum Laboratories Public Share Offer</td>
<td>299</td>
</tr>
<tr>
<td>June 1994</td>
<td>Moomba–Sydney Pipeline System</td>
<td>534</td>
</tr>
<tr>
<td>June 1994</td>
<td>Commonwealth Uranium Stockpile</td>
<td>57</td>
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<td>June 1995</td>
<td>Aerospace Technologies of Australia Pty Ltd</td>
<td>40</td>
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<tr>
<td>July 1995</td>
<td>Qantas Public Share Offer</td>
<td>1,450</td>
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<td>Total</td>
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<td>6,766.62</td>
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<tr>
<td>July 1996</td>
<td>Commonwealth Bank Secondary Public Share Offer (3) and share buy back</td>
<td>5,100</td>
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<tr>
<td>December 1996</td>
<td>Commonwealth Funds Management</td>
<td>62.5</td>
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<td>January 1997</td>
<td>Avalon Airport Geelong Ltd</td>
<td>1.5 (plus annual lease payments)</td>
</tr>
<tr>
<td>May 1997</td>
<td>Phase 1 Airports</td>
<td>3,337</td>
</tr>
<tr>
<td></td>
<td>• Melbourne Airport</td>
<td></td>
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<tr>
<td></td>
<td>• Brisbane Airport</td>
<td></td>
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<tr>
<td></td>
<td>• Perth Airport</td>
<td></td>
</tr>
<tr>
<td>July 1997</td>
<td>DASFLEET</td>
<td>408</td>
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<tr>
<td>September 1997</td>
<td>Australian Industry Development Corporation Ltd</td>
<td>155</td>
</tr>
<tr>
<td>November 1997</td>
<td>Telstra 1</td>
<td>14,200 (sale included provision of a $3,200 m pool of Commonwealth bonds to repay equivalent amount in Commonwealth guaranteed borrowings as they fall due)</td>
</tr>
<tr>
<td>November 1997</td>
<td>Australian National Railways Commission</td>
<td>95.4</td>
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(Table continued)
## Appendix 2  
### Continued

<table>
<thead>
<tr>
<th>Date</th>
<th>Item divested</th>
<th>Proceeds (A$m)</th>
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</table>
| October/November 1997 | Department of Administrative Services  
- Asset Services  
- Australian Operational Support Services  
- Australian Property Group  
- DAS Centre for Environmental Management  
- DAS Distribution  
- DAS Interiors  
- WORKS Australia | 28.9 |
| December 1997         | Housing Loans Insurance Corporation | 108 |
| February 1998         | Former Macleod Repatriation Hospital Site | 1.75 |
| April 1998            | Australian Multimedia Enterprises Ltd | 29.3 (capital return) |
| April 1998            | Phase 2 Airports (Adelaide; Alice Springs; Canberra; Coolangatta; Darwin; Hobart; Launceston; Mt Isa; Parafield; Tennant Creek; and Townsville; Archerfield; Jandakot and Moorabbin) | 730.75 |
| June 1998             | Auscript | 1.1 |
| December 1998– May 1999 | Australian River Co. (Formerly ANL Ltd) | 20.697 |
| March 1999            | National Transmission Network | 650 |
| October 1999          | Telstra 2 | 16,000 |
| November 1999         | ADI Ltd | 346.78 |
| January 2000          | Removals Australia | 10.4 |
| April 2000            | AWRAP (Australian Wool Research and Promotion) | 38 |
| September 2001        | Essendon Airport Ltd | 22.044 |
| February 2002         | Combined sale of National Rail Corporation Ltd and NSW’s Freight Rail Corporation ($1172 m total transaction value) | 220 |
| June 2002             | Sale of Sydney (Kingsford Smith) Airport ($1355 m of SACL debt repaid in addition) | 4233 |
| December 2003         | Sale of Sydney Basin Airports (Bankstown, Camden and Hoxton Park) | 211.0 |
| June 2004             | ComLand Limited ($25.3 m of ComLand debt repaid in addition) | 139.7 |
| November 2006         | Telstra 3 | 15500 |
| Total                 | | 61650.821 |

*Sources: Fairbrother, Paddon and Teicher (2002); DoFA (2007); The Australian (2006).*