The Great Privatiser? Assessing Howard’s Privatisation Agenda

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Abstract
Howard has long been a champion of privatisation, but what can we make of his decade as Prime Minister? There is little doubt that Howard has a strong ideological commitment to the sale of government business enterprise and he has long professed a small government ideal. In this way, it is no surprise that Howard has continued the sale of iconic enterprises which began under Hawke and Keating, and will likely oversee Australia’s largest government divestment with the imminent sale of Telstra.

Notwithstanding that ideology has played a critical role in the Australian privatisation story, it is important to consider other influences, namely pragmatic and tactical, which have driven Howard’s agenda. Adapting a broader view of privatisation, beyond the relatively simple divestment story, allows us to examine Howard’s decade in a more nuanced fashion. This broader frame of analysis incorporates the full spectrum of privatisation activities such as: asset sales or divestment; outsourcing or contracting out; private funding of public services (user pays) and liberalisation of public monopolies.

The purpose of this paper then is to present an analysis of the full spectrum of privatisation under Howard’s leadership and to demonstrate the primacy that “private” has gained over “public”, in a discourse of choice and competition. Such an analysis allows us to provide a far more comprehensive assessment of Howard’s decade of privatisation.

1 See Feigenbaum, Henig & Hamnett (1999)
Introduction

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 Hawke government has started a concerted campaign to misrepresent and distort the effect of the Liberal Party’s commitment to privatisation. The Coalition must hold its nerve. We must not be knocked off course. We must not allow the scare tactics of the government about the alleged loss of rural services and the so-called giving away of national assets to succeed (Howard 1985).

This is why 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 been a key plank of Howard’s policy agenda over the last decade. Much has been made of the iconic sales that have already, and will soon take place but which, in reality, have followed on from the Hawke-Keating policy on asset sales. Ideology has played a critical role in Howard’s privatisation policy and this has reflected his much stated preference for private over public and his rhetoric on removing the shackles of government to enable individual choice. Importantly Howard’s privatisation policy has also reflected his political pragmatism and it is here, at the intersection between principle and pragmatism, that we can make some assessment of whether Howard has been a “great privatiser” or not. In the late 1980s for example, Howard lambasted Medicare and argued for a return to a fully private system, by 1996 he supported Medicare and bulk billing, and by 2004 had become its best friend. Such tacks and turns rest on his development as a highly pragmatic Prime Minister and privatiser.

In addition to considering Howard’s divestment approach, in this paper we also open up to analysis the full range of privatisation methods. This allows us to undertake a more sophisticated assessment of the scale and scope of privatisation beyond the more iconic sales that have taken place. For instance, we can consider whether there has been a shifting emphasis on the types of privatisation that have taken place. The first section of the paper provides an overview of the privatisation concept and considers the full spectrum of privatisation mechanisms. The second section provides a discussion of Howard’s privatisation principles and this is followed by a detailed analysis of the extent of privatisation in all its forms under Howard.

Privatisation: The Mechanisms

Privatisation refers to an array of ways in which there are substitutions for government-owned, government-funded and government-provided services by non-government agencies and private funding mechanisms (see Table 1). The first type, divestment, involves the selling of public industries and the withdrawal from full public provision of services. In these cases, privatisation involves a change in ownership of the enterprise –
public to private. The second type involves the withdrawal from service delivery by
governments and, like divestment, is based on a judgment that it is no longer appropriate
for governments to continue to provide such services. The third type, outsourcing, is the
private provision of public services previously delivered by government agencies. The
fourth, liberalisation, involves the abolition or relaxation of public monopolies.
Governments maintain their role as a provider of services, but it is conditional on public
providers operating successfully in a competitive market. The fifth type involves
substitution of customer or user fees for tax finance (usually referred to as “user-pays”) 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.

**Table 1: Types of Privatisation and Outsourcing**

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<tr>
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<th>Description</th>
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<tr>
<td>1</td>
<td>Divestment: selling off public assets</td>
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<td>2</td>
<td>Withdrawal: governments withdraw from provision, leaving services to private providers</td>
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<td>3</td>
<td>Outsourcing: the private provision of public services</td>
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<td>4</td>
<td>Liberalisation: relaxation of public monopolies to allow private competitors</td>
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<td>User-payers: substitution of public with private funds.</td>
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Source: Aulich 2005

The last three types may be distinguished from the first two in that they do not signal an end to public sector control as governments retain decision-making power over what is produced and provide the necessary resources for producing it. The last two types can be distinguished from outsourcing by the continuing involvement of public agencies in the delivery of public services. Significantly, the use of these modes of privatisation (and outsourcing) is not new for governments in Australia with numerous examples stretching back to the early days of European settlement (McIntosh et al 1997).

**Howard’s Principles of Privatisation**

Howard has long championed the notions of incentive, choice, competition, customer-oriented public services, and privatisation. His preference for private enterprise over public is long held, dating back to his childhood experiences working for his father in a petrol station (and echoing Thatcher’s formative experiences in her fathers grocery store) (Norington 2006). The election manifesto produced when Leader of the Opposition, it was argued that “enterprise comes from individuals not governments” (LNP 1988:11).

His public pronouncements on privatisation also enjoy a long history and he has maintained a steady philosophical commitment to the power of private enterprise and individual choice. As Treasurer in 1981, for example, Howard argued that in order to give priority to the private sector government should encourage private activity and contain its own demands for scarce investment funds to ensure it did not crowd out private enterprise (Howard 1981a). This reflected his strong belief in small government:

> 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 room to move and grow, and the demands of the public sector on the community have to be reduced (Howard 1981b).

The simplicity of Howard’s initial approach to determining the proper role for his government was indicated by the Minister for Administrative Services, David Jull, who said that he took a “yellow-pages” approach to the question of commonwealth business enterprises: if such services were advertised in the yellow pages there was no reason for them to be provided by government (Taylor 1997).

Howard’s privatisation agenda has also been strongly punctuated with discussions of choice and the primacy of private decision-making and market exchange over more collectivist social exchange systems. This has been generally the case and far more pronounced in two key policy areas - health and education – where Howard has long argued that the role of government has been to facilitate choice for consumers.

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 were much better placed to make decisions than government (Howard 1981c).

Long an ideological supporter of privatisation, one of Howard’s most detailed orations on the topic was made to the National Press Club in 1985 where, as Shadow Treasurer, he argued the benefits of privatisation were two-fold:

The first is to achieve a more efficient balance between public and private use of our resources by:

i. Progressively allowing the private sector to do and own those things which the private sector does better and more naturally owns, and

ii. Restricting the public sector to those functions which appropriately belong to it.

The other goal of privatisation is to improve the quality and choice of services to consumers (Howard 1985).

For Howard, privatisation would result in smaller government and provide for the retiring of debt. And channeling Menzies he argued that, “the Liberal seeks first the private enterprise solution” on the basis that “governments do not provide enterprise; they provide controls.” Howard also argued that privatisation would be a driver for increasing individual choice, opportunity and incentives. Here we saw Howard’s clear preference for the private over the public articulated:

Privatisation not only entails the transfer of publicly owned assets to individual Australian. 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).
In his speech, he explicitly linked choice to *education* – “continued government assistance to private schools in Australia is part of the process of privatisation”, *health* – “a future coalition government will privatisate health insurance”, *asset sales* and *contracting out* – “privatisation is also about contracting out services to the private sector rather than forcing their performance within the public sector”. These ideas were further articulated in a subsequent Liberal-National party policy manifesto. Here Howard’s preference for private over public is unambiguous:

> 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 (LNP 1988).

These arguments created the basis for his policy framework and vision of Australia in the 1990 and they were especially important in areas such as health and education policy where Howard argued that families required more choice. In 1988, for example, he claimed that Medicare distorted consumer signals and that the coalition would “re-establish the provider-consumer link between doctors, hospitals and patients” by encouraging and reward private insurance (LNP 1988:20). A similar argument was made in relation to education, with Howard making a strong case for encouraging genuine choice for parents (LNP 1988:23). His choice and incentive arguments also underpinned his vision of creating a capital owning democracy through the sale of government enterprises. This was not a case of “getting rid” of assets but allowing individuals to be involved “in the ownership of some of their greatest national utilities” (Howard 1985). Here Howard argued that privatisation was an “exciting opportunity” for individuals to “own” great Australian enterprises in the development of “a capital owning democracy” at the same time as “exposing government business operations to the winds of efficiency, competition and change (LNP 1988:48-49).

In his most zealous moments he has argued that privatisation and private ownership act as a protection again the erosion of basic rights and freedoms: “freedom and personal responsibility require private ownership of property” (LNP 1988:12). Despite his small government belief and his preference for private over, Howard has also claimed that he does not believe in privatisation for privatisation’s sake. This is even though he has staked a claim to have overseen “the most vigorous privatisation program undertaken by any national government” and championed the Liberal’s “full-blooded privatisation policy” (Howard 1989). Instead, he argued early on 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; and,
3. Quality must improve overall and rural and remote areas should not suffer deterioration in services.

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These have been articulated many times by Howard, see for example: Com. Parl. Debs. HoR 26 May 1988.
Analysis of Howard’s speeches and policy documents shows two clear phases. Firstly during the 1980s it is much easier to characterise Howard as an ideologue in relation to privatisation. It was during this period that his most zealous pronouncements were made for example, that private ownership provided a barrier to the erosion of rights, and that from day one after the election he would set the tone for small government (Randall 1986). However, during this period he also publicly acknowledged the importance of not appearing to be an ideologue:

We are not engaged in some ideological binge with the aim of selling off every government-owned body we can lay our hand 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).

As leader of the Opposition in 1986 and bruised by Labor’s privatisation scare campaign Howard set out his privatisation communication strategy:

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).

Since his election in 1996 Howard has been careful to approach privatisation on a case-by-case basis being careful to make specific cases in the public interest (e.g. Telstra). He has made no major speeches on privatisation per se in the last decade despite the scale and scope of privatisation that has actually taken place. His strategy has been to shift from ideologue to pragmatist and in this shift he has driven a major privatisation program in Australia.

The following sections set out in detail Howard’s decade of privatisation in all its forms. These policies have in sum, gone to the heart of the question about the appropriate role for government.

**Divestment: Selling off the Family Silver?**

Public enterprise has had a long and important role in Australia since settlement. At critical times in our history public enterprise played a nation-building role as Bland has noted:

the 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).

By the late 20th century Australian governments managed public enterprises in competition with private providers in areas such as banking, insurance, shipping, airlines and private medical insurance as well as holding monopolies in the provision of water and electricity, railways, airports, postal services and telecommunications. However,
divestment over the last decade in particular has marked a shift away from public enterprise. The policy reversal began under the previous Labor governments with the sale of iconic enterprises such as the Commonwealth Bank and Qantas. Following Howard’s election however divestment took on a rapid pace – not surprising given his promise to set a small government tone immediately and the identification of a privatisation “hit list” in the 1980s.³

The Howard Governments focused on applying two key decision tests to all services: is it appropriate for the government to continue providing this service? If so, how can it be exposed to greater market pressures? In respect of answers to the first question, the Howard government announced in its first Budget that it would be selling off most of the commercial enterprises within the Department of Administrative Services, ushering in the first phase of privatisation: divestment.

This period immediately following Howard’s election – 1996-1998 - 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) and Australian Defence Industries ($346.8 million) and the partial sale of Telstra ($16,000 million) (DoFA 2003; Minchin 2004). Divestments made under the trade-sale method included departmental units (for example, most of those agencies which provided services to the public sector such as car hire, parliamentary travel services and office removals; the National Transmission Agency network), 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.

Indeed the privatisation agenda was so dominant in Australia that for the first few years after the election, the principal driver of the mergers and acquisitions market was divestment of publicly owned organisations. For example, in 1997 divestment of publicly owned assets constituted 13% of the total global market, placing Australia second only to Brazil. Three-quarters of this involved infrastructure assets, principally in the electricity, gas, airports and telecommunications sectors. It also included the largest privatisation in Australian history with the partial sale of the government telecommunications giant, Telstra, which raised $14.3 billion (J P Morgan 1998: 25).

The divestment strategy underpinned decisions to sell 57 government-owned properties all justified on the grounds that retention did not constitute “core government business”

³ In 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 (LNP 1988:49).

⁴ What was remarkable about the sale of ADI was that the successful tenderer was the company Transfield Thomson-CSF Investments Pty Ltd, owned by the Australian Transfield Holdings Pty Ltd and the French Thompson-CSF group, the latter being majority owned by the French state. This provokes the question whether selling to a public agency of another country can really be said to be privatising (Wettenhall 1993: 401.)
and that there were private sector organisations able to provide alternative supply. A major area of divestment has occurred in the sales and lease-back arrangements being entered into by a number of agencies. An Auditor-Generals’ report raised some cautions about this practice and suggested that “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 where 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 1999 (OASITO 2000: 20–21; OASITO 2001: 16). 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 must give enormous satisfaction to a prime Minister seeking a “capital-owning democracy”.

The windfalls from these share sales were applied to debt reduction although $1.5 billion was earmarked for environmental improvement programs and $671 million was provided for “social bonus” to be allocated to prescribed purposes (Fahey 1998: 246–48). However, what became clear was that the public-private ownership of Telstra rested uncomfortably with many government Ministers, many in the business sector and with the board of Telstra itself. This coalition of interests raised a number of concerns about the mixed ownership model including significant managerial, regulatory and equity problems especially those which pit the interests of shareholders against those of the government as the major shareholder. The CEO was reported as commenting that, “a fully privatised Telstra would be more competitive, more customer-focused and more acquisition hungry” (BRW 2000).

A major election promise of the returning government in 2004 was to complete the sale of the telecommunications giant. Having a majority in both houses of parliament has enabled the government to proceed with this promise and legislation to effect the sale was passed in September 2005, despite trenchant opposition from several political parties, trade unions, and many people from rural and remote areas of Australia. A sum of $2 billion was earmarked from the sale for improvements to rural telecommunications and the remainder of the expected $30 billion is to be invested by the government into a “futures fund”. This signals a shift in the role of government with respect to telecommunications from monopoly provider to regulator, ensuring that quality services are provided rather than actually providing them.

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. One effect has been

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5 We estimate the proceeds from divestment at $46 billion (see Appendix 1 for details).
a reduction in the national debt to a level (about seven per cent of GDP), significantly lower than in most European countries and approximately the same levels as the US and Japan (Moran 2000). Although the 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. Following the final tranche of Telstra, Howard actually has little left to sell besides Medibank Private, Australia Post and the Australian Submarine Corporation.

Two preliminary observations can be made. First, governments of both left and right have used the same tools of privatisation but Howard has stepped up the scale and scope of divestment making the current government one of the world’s great privatising regimes (Aulich 2000). Second, a key feature of this privatisation experience is its focus on the broad question of the role of government. The privatisation experience 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” (Vertigan 1999: 61). Howard, of course, has made his view on this quite clear.

**Outsourcing: Private Providers, Public Services**

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 services in Australia, private sector providers were sought to replace the public sector agencies and groups that had previously delivered the services. The services involved were typically “non-core” as they were usually concerned with services to government itself and, therefore, considered more appropriately delivered by the private sector. The Minister for Finance advised all government departments and agencies that they were to consider competitive tendering and contracting (CTC) as a real cost reduction option. He announced that “in 1998–99 I will report to the Government on agencies’ progress in implementing performance improvement methods, including CTC” (DoFA 1998: 3). The onus was to be on the agency to justify whether some or all of their functions should be exempted from market testing and outsourcing.

In terms of budget size, and potential cost savings, information technology (IT) services were a primary target for outsourcing, and the government decided to outsource the supply of all government computer infrastructure, from mainframes to desktops, in huge whole-of-government deals. Planning for an IT outsourcing initiative had begun under the previous Labor Government and its motivation was primarily linked to industry development – an attempt to use outsourcing of government IT services to assist the importation of IT expertise into Australia to rejuvenate the local IT industry and improve the quality of government IT services (“tactical” outsourcing). It was hoped that local small to medium IT enterprises would “piggy-back” on the larger, probably foreign, primary contractors (Aulich & Hein 2005).

The policy focus of the Howard government shifted towards “systemic” or ideologically-driven outsourcing (Aulich & Hein 2005) with the national government embarking on

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6 There are instances where not-for-profits are used extensively for example in the outsourcing of employment services.
one of the largest and most complex outsourcing initiatives in Australian history. Government agencies were directed to outsource their IT capability in one of 11 “clusters” for which only private sector contractors were able to compete. The Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative (the IT initiative) announced in early 1997, was “directed at achieving long term improvement in the structuring and sourcing of IT services across agencies to facilitate greater integration in the delivery of programs and realise significant cost savings” (ANAO 2000: 5). It was an “ambitious and broad ranging policy initiative aimed at complementing modern management practices within the Commonwealth Public Service and enhancing access to wider technical skills and technologies” (Humphry 2000: 4).

In introducing this bold initiative, Minister Fahey argued that the government would save $1 billion over a seven-year period (Fahey 1997: 1). As a consequence of projected cost savings, departmental budgets were cut for the subsequent financial year, with agencies expected to capture the anticipated savings in order to meet their expenditure objectives. Many agencies raised objections to the IT initiative and highlighted the risks and potential adverse impacts of the proposed outsourcing approach but these were ignored by government (Aulich 2000).

By 2000, however, the implementation of the IT initiative, under continual and intense scrutiny from the parliamentary opposition, industry and the public, began to unravel. The original timetable was to be completed by June 1999, but by that time, only four of the planned 11 major tenders had been completed – despite a revised implementation schedule announced in December 1998. The Audit office (ANAO) undertook a performance review of the initiative in 2000, releasing its findings that were deeply critical of the IT initiative. The ANAO reported on patchy service levels, huge consultants’ fees, a blown budget and timeframe, and disputed the savings calculation methodology and offered a revised projected saving of just $70 million (ANAO 2000), a significant reduction from an earlier savings expectations.

This Audit Report forced the government to initiate a full review of the IT initiative. By the time the review report had been completed in 2000, only 23 agencies in five groups had outsourced – representing about a half of the total number, with contracts valued at $1.2 billion of a total estimated $4 billion for the whole IT initiative. The review report acknowledged the complexity and sheer size of the implementation task but highlighted “significant risks in the transition and implementation processes of outsourcing” (Humphry 2000: 6) and noted that “agency inertia and resistance to change contributed significantly to the delays” (Humphry 2000:4). The review report was hailed as “a huge win for the rest of the bureaucracy, particularly the Secretaries and the Unions” (Burgess 2001). A disgruntled Minister for Finance blamed public servants highlighting a “lack of buy-in by senior agency management” (Fahey 2001).

Public and political pressure was so great that the government retreated from its centrally managed approach. In January 2001, the Department of Finance advised that “full responsibility for managing IT outsourcing has been devolved to Agency Heads” and that, at the agency’s discretion, and on a fee-for-service basis, they could access advice on managing the transition of IT functions to the private sector (DoFA 2001). While
agencies were still required to outsource IT, the policy now enabled individual, selective approaches that suited agency requirements and timing; central support would be provided to assist agencies but the responsibility for implementation was now devolved to agencies.

Agencies have reported that, under this “second generation sourcing” regime, they are now more able to operate flexibly and responsively to their own business needs with market testing and outsourcing characterised as “business opportunities”, rather than as direct political or procedural imperatives. This strategic, flexible, agency-focused approach to market testing has satisfied some of the earlier critics who had been concerned about the impact of the big private sector firms. Present arrangements have encouraged agencies to rework policies of “bundling” with the result that many small to medium enterprises (SMEs) have been able to successfully compete for contracts (Woodhead 2003). This policy change represents a shift from “systemic” to “pragmatic” outsourcing where the public or private sector distinctions have become less important than the financial outcomes of the outsourcing decision (Aulich & Hein 2005).

In 1999, just two years after the launch of the IT initiative, the government had turned its attention to the corporate services areas of its 124 agencies. A Cabinet decision directed that these services now be market tested – a process to be used as a preparatory step before decisions are made as to whether or not to outsource these services. Perhaps this more cautious approach was a response to emerging concerns from the IT initiative, although at that time no formal review of the policies that underpinned the IT initiative had been undertaken.

While approaches by agencies were generally cautious, the pressures to comply with the market testing provisions were being felt by agencies, especially in regard to the management of the $18.5 billion expended on HR. In a benchmarking study of 14 agencies, ANAO pointed to failures in integrating business with people planning and in attracting, retaining and managing quality staff, and highlighted tensions between the career and mobility motives in agencies. The report concluded that,

> the requirement to market test HR functions has impacted to some degree on [agency] ability to deliver high quality advice and services … The time devoted to market testing was identified in several agencies as an impediment to effective performance (ANAO 2002: 3.9).

Market testing of corporate services prior to outsourcing was seen as a significant improvement over processes used for the IT initiative, as it could identify any savings and/or efficiencies that might be made prior to making the decision to outsource. The decentralised, agency-based approach also enabled agencies to determine their own timeframe, sequence and scope of services (including bundling) to be market tested. The corporate services initiative recognised and catered for variations in practices and procedures across agencies, and enabled agencies to drive their own approaches. Indeed, agencies were even able to make a case to the Minister for Finance for not proceeding with market testing at all (Hein 2001).
Commentators have been critical of the failure to fully and formally evaluate these policies. While the Humphry report did make an assessment of the savings in relation to IT outsourcing, there is little analysis or publication of projected whole-of-government savings for the corporate services initiative to date. This is an important issue as there is ongoing political disagreement about how full costs of market testing and outsourcing can be calculated. As Barthelemy (2001) concludes, “although the benefits of IT outsourcing are clear, they often get eaten away by costs that managers can’t pinpoint”. He suggests that this includes vendor search and contracting costs, costs of managing the effort and costs of transitioning after outsourcing that can be added to other costs such as organizational shock, loss of expertise and corporate memory.

Although the need to develop the Australian IT industry has been one of the key motives underpinning the IT outsourcing initiative, concerns have been expressed that the capacity of current industry to respond to present demand has been patchy. The first ANAO report commented that “shortfalls in expected industry capacity and participation have been a significant factor in the need to revise and extend the implementation schedule” (ANAO 2000: 5). The Senate report into IT outsourcing concluded that one unresolved issue is concern that the level of IT employment growth in regional Australia that had been claimed was “not impressive” (SFPARC 2001: 195). Since that time, however, it seems that SMEs may now become significant winners under current policy to disaggregate and re-bundle contracts. There is evidence that select sourcing enables “best of breed” providers (small Australian IT companies) to win government IT business. Indications are that the market is actively reconfiguring to respond to the current policy parameters and to win business from the multinationals (Connors 2003).

What is also clear is that there are motives beyond costs savings that have driven the outsourcing and market testing initiatives. This confirms the views of many researchers that, while cost and efficiency concerns were the most important considerations in making outsourcing decisions in government, 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 (Bisman 2003). Significant public funds have financed private providers of public services: for example, in the period 1999 to 2004 the value of outsourced business services for FMA agencies rose from $3.7 billion to $5.7 billion ((AusTender 2006).

**Liberalisation: Ending Public Monopoly**

This approach to privatisation involves the removal of monopoly advantages enjoyed by government agencies together with an invitation for private and not-for-profit organizations to compete against them. The most substantial changes in the last decade occurred with the delivery of employment services, telecommunications and postal services, the last two initiated under previous Labor governments.

The establishment of the Job Network by the Howard Government provided an opportunity for non-government providers to compete with government providers to deliver labour services to jobseekers – this was 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 (PC 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 eight per cent in 1999 to three per cent in 2003, the remainder of contracts being won by organizations in the private and community/not-for-profit sector (DEWRSB 1999; DEWR 2003). Eventually, Employment National was closed down, 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.

Some commentators have argued that this incremental approach to privatisation has led to a steady transfer of service provision to the private sector. As Taylor commented:

> It has been almost imperceptible, but little by little the Howard Government 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 portfolio (Taylor 1999: 9).

**User-Pays: From Citizens and Clients to Customers?**

The decreasing contribution made by government to some services has meant that users are required to assume a greater responsibility for self-funding services, with the result that non-payers can be excluded. There have been various examples of this kind of privatising activity – for example, the revamping of the Higher Education Contribution Scheme (HECS) to ensure that university students make a higher private contribution to their own education. The new arrangements for HECS announced in 2003 will mean higher average contributions from HECS students (Phillips & Chapman 2003). Similarly, limits placed on government-subsidised childcare places; the tightening of qualifications for benefits such as unemployment benefits and Austudy payments; and the option for universities to set aside places for full fee-paying Australian students, also shift the costs burden from public to private. As a result families and other non-government agencies are accepting a more significant role in the provision of public services as the government shifts further away from universal provision.

In the years from 1996-2000, cost recovery procedures under the Howard government “ratcheted upwards” by 24% in real terms, exceeding $3.2 billion raised in 1999-2000 (PC 2001). Almost all agencies, whether government departments, industry regulators or information agencies attempted to recovered some of their costs via this process. This massive increase could reflect either or a combination of the following changes: (i) an increased financial burden on existing clients or customers; (ii) the generation of “new business” by entrepreneurial agencies; (iii) inter-agency charging. Given reporting requirements it is not possible at this stage to actually determine the weighting of these forms of cost recovery.

In some agencies, such as the Therapeutic Goods Administration, the target recovery rate was set at 100% of operating costs (though only 85% was achieved by the TGA in 1999-2000) (PC 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 Australian Prudential Regulation Authority, for example, received $75.1 million in 1999-2000 from Cost Recovery processes, increasing to $85 million in 2003-04 and approximately $96 million in 2004-05.

General trends can be assessed within some agencies, such as the Therapeutic Goods Administration, which recovered $41.4 million in 1999-2000 and is estimated to receive $71.151 million from Cost Recovery processes in 2005-06. Likewise the National Industrial Chemicals Notification Assessment Scheme brought in $3.7 million in 1999-2000, and is set to return $6.236 million in 2005-2006 (DHA 2006).

In response to the Productivity Commissions report the Howard government adopted a “formal cost recovery process” in December 2002 aimed at increasing the extent to which agencies can fund services through user-charging. Under the new cost recovery 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.

Conclusions
Howard’s vision for the Australian Community for the 1990s were embodied in the Coalition Parties’ election manifesto, Future Directions 1988. This document is formed on conservative values, but contained a vision of connected, compassionate, volunteering communities. This view of society sits at odds with Howard’s much more market-based exchange notions regarding privatisation which he has put into practice over the last decade.

The early Howard Governments favoured large-scale divestment of publicly owned enterprises and by the initiation of the whole-of-government approach to IT outsourcing. Later periods saw further developments in the divestment program, focusing on the sale of the remainder of the telecommunications giant Telstra, but a major retraction of the IT outsourcing initiative and its replacement by a market testing regime primarily managed at agency level. The programs represent a frustration of government intentions by its inability to carry political partners and independent members of the Senate, and by a failure to effectively implement the IT outsourcing initiative in agencies. While the frustrations have impeded progress of the Howard Governments towards a smaller, enabling or hollowed state, it may also have invigorated the status of the public sector leaving the government less insistent on the superiority of the private sector in delivery of public services.
Concerns have been raised of significant variations in the standards of service offered by disaggregating services among multiple private providers. Taylor argues that case studies in employment services show that markets are driving the less efficient out of service provision, but questions are being raised about the uniformity of service level, especially for the long-term jobless, those from rural and regional Australia and those from lower socioeconomic backgrounds (Taylor 1999). A fuller analysis of these possible impacts are required, as well as an assessment of winners and losers from the process.

The decade-long program of privatisation and outsourcing has radically shifted the nature of the public sector at national level. While a majority of the trends towards the “private state” were initiated under the previous Labor Governments, successive Howard Governments have considerably accelerated the process. The resulting public sector is now smaller as a result of “significant functional cuts, efficiency improvements and contracting out of functions” (APSC 2003: 53–54), although Keating (2004) argues that this may be exaggerated as government expenditure as a percentage of GDP, after accounting for business cycle effects, has not fallen significantly. Even if Australian governments expend proportionately less public funds on their public services than previously, it is clear that even “smaller” government can exercise greater control in being able to implement their policy agendas (Keating 2004). A perfect example has been the Howard governments use of subsidies and tax penalties to “encourage” the take up of private health insurance policies. This underlines the view that ownership is not necessary for control and that the Howard government has been able to restructure the nature of government and its relationships with its community.

It is difficult to escape the conclusion that Australia now gives less value to its public sector and to the contribution to the development of the Australian state made by its public enterprises. The Howard Governments have 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 less likely to be delivered by public sector providers. This market exchange is steadily supplanting the traditional notions of entitlement which has hitherto buttressed the Australian welfare state. Further, the explicit favouring of privately provided services, in particular health and schooling, over their public counterparts, have added to the growing acceptance by the Australian community of the superiority of private provision. For example, at the end of the Howard decade around 200,000 students have shifted from the public to the private education sector (representing a 22% increase) and spending on private schools has doubled to $4.7 billion by 2005 (Maiden 2006). 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 – the obverse of privatisation through user-pays.

In its reliance on public enterprise the traditional Australian state stood much closer to countries like Sweden and Canada where public ownership had a similar “natural growth” character (Verney 1959: 7) than it did to Britain and the USA. However, the establishment of the “private state” moves contemporary Australia much closer to the USA in terms of the ways it values private provision of public services. This may represent a stage of development as Australia is no longer a pioneer state; perhaps it represents a growing acceptance of the values attached to autonomy rather than an
appreciation of the value of collective activity and its embodiment in the notion of the welfare state. It may also reflect the uptake of market activities that were designed to shake loose the social democrat state from being a “serviceable drudge” (Tawney 1966), a key goal of the Prime Minister and his governments over the past decade.

What is clear is that the boundaries between state and market are in flux and in many areas both state and market inhabit the same territory. Rather than determine the boundaries between public and private, debate is increasingly being focused on the best means of enabling both to co-exist. Through successes and failures of government policy over the past decade it is clear that Howard has succeeded in accomplishing a considerable shift towards his articulated vision of Australia through the adoption of a highly pragmatic privatisation strategy.
References


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Burgess, V (2001) Announcement of IT report was a free kick at John Fahey *Canberra Times* 12 January.


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


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## Appendix 1: Divestment Under the Howard Government (at 10/02/06)

<table>
<thead>
<tr>
<th>Date</th>
<th>Item Sold</th>
<th>Sale Proceeds AUD$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1996</td>
<td>Commonwealth Bank Secondary Public Share Offer (3) and share buy back</td>
<td>5,100</td>
</tr>
<tr>
<td>December 1996</td>
<td>Commonwealth Funds Management</td>
<td>62.5</td>
</tr>
<tr>
<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>
</tr>
<tr>
<td></td>
<td>• Brisbane Airport</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Perth Airport</td>
<td></td>
</tr>
<tr>
<td>July 1997</td>
<td>DASFLEET</td>
<td>408</td>
</tr>
<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 $3,200m pool of Commonwealth bonds to repay equivalent amount in Commonwealth guaranteed borrowings as they fall due)</td>
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<tr>
<td>November 1997</td>
<td>Australian National Railways Commission</td>
<td>95.4</td>
</tr>
<tr>
<td>October/November 1997</td>
<td>Department of Administrative Services</td>
<td>28.9</td>
</tr>
<tr>
<td></td>
<td>• Asset Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Australian Operational Support Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Australian Property Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• DAS Centre for Environmental Management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• DAS Distribution</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• DAS Interiors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• WORKS Australia</td>
<td></td>
</tr>
<tr>
<td>December 1997</td>
<td>Housing Loans Insurance Corporation</td>
<td>108</td>
</tr>
<tr>
<td>February 1998</td>
<td>Former Macleod Repatriation Hospital Site</td>
<td>1.75</td>
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<tr>
<td>April 1998</td>
<td>Australian Multimedia Enterprises Ltd</td>
<td>29.3 (capital return)</td>
</tr>
<tr>
<td>April 1998</td>
<td>Phase 2 Airports (Adelaide; Alice Springs; Canberra; Coolangatta; Darwin; Hobart; Launceston; Mt Isa; Parafield; Tennant Creek; and Townsville; Archerfield; Jandakot and Moorabbin)</td>
<td>730.75</td>
</tr>
<tr>
<td>June 1998</td>
<td>Auscript</td>
<td>1.1</td>
</tr>
<tr>
<td>December 1998-May 1999</td>
<td>Australian River Co. (Formerly ANL Ltd)</td>
<td>20.697</td>
</tr>
<tr>
<td>Date</td>
<td>Company/Transaction Description</td>
<td>Value</td>
</tr>
<tr>
<td>-----------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>March 1999</td>
<td>National Transmission Network</td>
<td>650</td>
</tr>
<tr>
<td>October 1999</td>
<td>Telstra 2</td>
<td>16,000</td>
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<tr>
<td>November 1999</td>
<td>ADI Ltd</td>
<td>346.78</td>
</tr>
<tr>
<td>January 2000</td>
<td>Removals Australia</td>
<td>10.4</td>
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<td>April 2000</td>
<td>AWRAP (Australian Wool Research and Promotion)</td>
<td>38</td>
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<td>September 2001</td>
<td>Essendon Airport Ltd</td>
<td>22.044</td>
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<tr>
<td>February 2002</td>
<td>Combined sale of National Rail Corporation Ltd and NSW's Freight Rail Corporation ($1172m total transaction value)</td>
<td>220</td>
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<tr>
<td>June 2002</td>
<td>Sale of Sydney (Kingsford Smith) Airport ($1355m of SACL debt repaid in addition)</td>
<td>4233</td>
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<tr>
<td>December 2003</td>
<td>Sale of Sydney Basin Airports (Bankstown, Camden and Hoxton Park)</td>
<td>211.0</td>
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<tr>
<td>June 2004</td>
<td>ComLand Limited ($25.3m of ComLand debt repaid in addition)</td>
<td>139.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>46,112.821</td>
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Sources: Fairbrother P, Paddon M & Teicher J (2002); DoFA (2004)