A case study in austerity, Part 1:

How Jeff Kennett's Victoria paved the way to neoliberal hell

By Elisa Barwick

The Yallourn West Power Station in the Latrobe Valley was sold to a consortium including British company Powergen in 1996. Some 7,000 jobs were slashed in preparation for its sale, sending local job-losses to five times the national average for the early '90s. Photo: Wikipedia/Stephen Edmonds

Whether it be our collapsing power grid, hollowed-out healthcare, or emaciated education system, Victorians are living the results of the earliest neoliberal experiment on Australian soil—featuring budget and industrial austerity, deregulation, privatisation, asset stripping and public sector "reform". The Australian Citizens Party (then Citizens Electoral Council) was on the case at the time, exposing and slamming these polices as part of an international agenda imposed by City of London bankers and their ideological policy vehicle, the post-World War II Mont Pelerin Society. Apart from a handful of horrified "old guard" protests from inside the Labor and Liberal parties, who saw neoliberalism for the radical transformation it represented, ours was a lonely voice. But as the results of Premier Jeff Kennett's (1992-99) experiment became obvious, and as it spread across Australia, more voices joined the chorus. One example is a collection of essays published in 1999 that I recently came across in a second-hand book shop, *The Kennett Revolution: Victorian politics in the 1990s* (Edited by Brian Costar and Nicholas Economou, UNSW Press).

After Kennett came to power in October 1992, his government brought down seven "crisis" budgets within three-and-a-half years. The need for crisis action had been affirmed by major rating agencies that downgraded the state's credit ratings, by an Independent Commission of Audit commissioned by Kennett, and by private sector think tanks seizing on the opportunity to carve out a slice of profit from the public sector. But was the agenda simply about reducing debt, about fixing state finance; or was it about deeply entrenching a neoliberal policy platform that would spread across all states and federal policy levels, making it almost impossible to dislodge in the decades ahead?

David Hayward, then executive director of the Institute for Social Research at Swinburne University, now Emeritus Professor of Public Policy and the Social Economy at RMIT University, asked the key question in his 1999 essay, "'A financial revolution?' The politics of the state budget", included in *The Kennett Revolution*. That is, "[H]ow, in the space of only three years, a state on the brink of bankruptcy was able to produce a string of record-breaking budget surpluses and 18 months later reduce state debt to its lowest level this century. … Was this a straightforward technical argument beyond debate, as its advocates claim? Or was it part of a political strategy that sought to lay the foundation for a profound restructuring of the public sector, and of the relationship between the state and the citizens of Victoria?"

Even more important is the question, at what cost was this reform achieved? The Citizens Party thoroughly exposed that cost in an August 1996 exposé "Stop the great privatisation rip-off!" In just three years, the report stated, Kennett privatised $9.3 billion worth of assets, from the State Electricity Commission to the Melbourne Port Authority and countless government functions, slashing tens of thousands of jobs and sending a flood of state income into the coffers of foreign multinationals for perpetuity.

Hayward's article provides a similar assessment. By the end of 1993—that is, after just one year of Kennett's program—some 37,000 public servants, 8,000 teachers, and 35,000 government-business employees lost their jobs, wrote Hayward. Over 300 schools were closed, social programs were axed, and crucial services were converted to "user pays" systems.

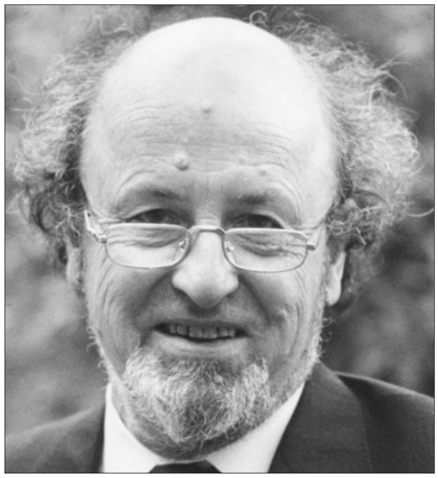
'Independent' recommendations

A series of ideological Royal Commissions, Commissions of Audit and Budget Reviews, always presented as "independent", provided the inroads for a new neoliberal policy blueprint for Australia. ("Outsourcing government is a corporate takeover", *AAS*, 22 Sept. 2020.) They were stacked with Mont Pelerin Society hacks. Victoria's 1992-93 Commission of Audit was seeded by a report prepared by Mont Pelerin think tanks the Tasman Institute and the Institute for Public Affairs (IPA). The report, "Victoria: an agenda for change", was instigated by business group consortium and MPS front, Project Victoria, with which other MPS groups scripted all of Kennett's policies.

A review of Victoria's Commission of Audit's reports, Hayward wrote, shows it was "both partial and highly inconsistent". It "went to great lengths to estimate the value of state debt, but made only the most flimsy attempt to estimate the value of state assets". The data it supplied showed a more complex picture than suggested by the political assertion that Labor had allowed state debt to rise inexorably. According to Hayward, Labor had begun to reduce the debt, only in its last three years in government did the debt begin rising again, although the debt to Gross State Product ratio was still only half of the 1960s level.

The Liberal claim that Victoria was spending more on debt than any other state was true, but it had also been true when Labor came to office. The Commission of Audit did acknowledge that in Victoria "growth in outlays [under Labor] has been more restrained in recent years than in most other states". Its criticisms of Labor's last three years in office coincided with "the very deep recession into which the Victorian economy plunged during the early 1990s", wrote Hayward. Growth shrank by 5 per cent and unemployment went from the lowest rate in Australia to the highest, at 12 per cent, with "a devastating impact on the state budget". Stamp duties collapsed by half in just three years, revenues from sharemarket activity fell 31 per cent, federal grants were reduced.

All of this had more to do with the heat coming out of the 1980s speculative bubble—and reactions to it—than with the actions of the Victorian government. Hayward wrote: "A string of financial collapses during the early 1990s associated with financial deregulation and high interest-rate policies—both federal government policy decisions—forced Labor to meet a variety of unbudgeted-for expenditures. The collapse of the State Bank for example, left the state with a $1.2 billion non-performing loan portfolio built up by the bank's merchant arm, Tricontinental. Some $150 million was required annually to meet these costs." (The cause of the collapse of Tricontinental, which had been founded by an IPA bigwig, will be taken up in a future instalment.)

Mont Pelerin ideologues Michael Porter and Des Moore, co-authors of the Project Victoria policy revolution. Porter worked at the IMF, the US Federal Reserve and Reserve Bank of Australia; as an insider to federal and state governments in the 1970s-90s he directed the financial deregulation of Australia. Moore spent three decades at the federal Treasury in the same period, working for the same cause. He was also a member of the inaugural council of the Australian Strategic Policy Institute, passing away in 2020. Photos: Screenshots

Frontrunning the audit

The report of the Commission of Audit was disingenuous. It was not, Hayward wrote, "the straightforward, technical document that it was purported to be. We can trace its origins to a report written some 18 months prior to the coalition being elected to office. *Victoria: An Agenda for Change* was the first of a series of reports published as part of Project Victoria, which was established in 1990 by peak business groups that sought to 'solve the major economic and budgetary issues facing Victoria *without increasing the burden of taxation*' (emphasis added)." It was an exact preview of the Commission of Audit report, wrote Hayward, alleging that Labor had been captured by public-sector trade unions and recommending $1 billion worth of spending cuts, privatisations, and "organisational reforms designed to bring the private market into the heart of the public sector". The figures it suggested to cut from education, health and public transport were "almost identical to those furnished by the Commission of Audit".

Hayward notes that *An Agenda for Change* was a collaboration between leading right-wing think tanks, the Institute for Public Affairs and the Tasman Institute, whose leadership significantly overlapped the composition of the Commission of Audit.

Michael Porter and Des Moore edited *An Agenda for Change*.

Michael Porter was a founder of the Tasman Institute, in Hayward's description a "private company whose revenues derive from advising governments on how to privatise their business undertakings".

Des Moore worked at the IPA.

John Stone and **John Hyde**, well known economists from the IPA, provided editorial assistance for the report.

Access Economics (now big four consultant/auditor Deloitte) provided analysis for the report. Hayward notes it had "acted as the Liberal Party's alternative treasury" for almost a decade.

Professor **Bob Officer**, a board member of the IPA and member of another MPS think tank, the Centre for Independent Studies, chaired the Commission of Audit. He would also serve on the Howard government's federal Audit Commission in 1996, along with MPS member Maurice Newman.

Saul Eslake, well known as a financial commentator today, executive officer of the Commission of Audit, was already a well-known economic rationalist who advised Liberal governments.

This Project Victoria nexus played a major advisory role throughout Kennett's premiership, participating in annual meetings with the Premier, Treasurer and key ministers, Hayward reported.

While Hayward provided these important details, he did not report that these think tanks are part of a global operation, the umbrella group for the world's most important neoliberal think tanks, the Mont Pelerin Society—a secretive institution which then, and still today, is virtually never mentioned in the mainstream press.

To be continued.

A case study in austerity, Part 2:

Jeff Kennett's privatisation rip-off

By Elisa Barwick

"The Kennett government has pursued a policy of privatisation on an unprecedented scale, drastically changing the political and economic landscape of Victoria in ways that will not be fully apparent even into the next century", Dennis Woodward wrote presciently, in an essay titled "Privatisation: A policy or an ideology?", published in 1999 in the essay collection *The Kennett Revolution: Victorian politics in the 1990s* (UNSW Press).

Victorians today are facing the full consequences of that sweeping agenda, particularly visible in the razing of the state's once world-class energy infrastructure. Privatisation promised the delivery of cheap and efficient power by private companies under the free-market model. And yet today, Victorian households, and those of the other states which all followed Victoria's lead, face soaring bills and extreme uncertainty of energy supply.

Table 1: Performance of electricity, gas and water

	Index of hours worked; Electricity, gas, water and waste services.	Index of hours worked; All industries	Index of gross value added; Electricity, gas, water and waste services.	Index of gross value added; All industries
Jun-1995,	100	100	100	100
Jun-2012,	168.4	133.2	75.1	133.6
Increase	68.4%	33.2%	-24.9%	33.6%

Source: ABS (2012) *Australian System of National Accounts, 2011-12*, Cat no 5204.0, 2 November.

While productivity across Australia rose by over 33 per cent in 1995-2012, in the utilities sector it collapsed by almost 25 per cent. Photo: The Australia Institute

The month after he entered office with a majority in both houses of parliament, in November 1992 Jeff Kennett passed his enabling legislation—the *State-owned Enterprises Act 1992*. It "removed state-owned enterprises from parliamentary purview", wrote the late Woodward, then a senior politics lecturer at Monash University, "paving the way for privatisation by executive decision". It removed state bodies from parliamentary oversight and put them under control of the Premier and his cabinet directly. The Act facilitated corporatisation of government entities, preparing them for privatisation; it enabled the removal of cross-subsidies and community service obligations (often blamed for inefficiency), to increase their commercial viability. Other means of "dressing up" the entities as a business proposition included jacking up prices ahead of sale to improve profits. In 1992 the government doubled the electricity supply charge and raised the price by 10 per cent.

Stripping the bones

Woodward noted that in the first six of his seven years (1992-99) as premier, Kennett had raised $24 billion from selling government entities *alone*—ten times more than any other state. The assets sold off in this period included: the State Electricity Commission (SEC), which was first broken up into various generation, transmission and distribution (retail) units; the Gas and Fuel Corporation (Heatane) LPG division; the Loy Yang B power station; railways including V Line Freight, V Line Passenger, the four metro train and tram companies, and the Northcote Bus Depot; the Portland Smelter Unit trust; the Ports of Geelong and Portland; the Grain Elevators Board; the State Insurance Office; BASS (ticket sales); the TAB; and the Victorian Plantations Corporation. State government departments were stripped as many institutes, museums, archives, research laboratories and prisons were privatised, as were a huge variety of other agencies or sections thereof, including crucial functions of VicRoads and the State Revenue Office. Myriad government services were contracted out to private companies, including maintenance programs, fire management, pest control, surveying, workcover, disability and drug services, justice department and police functions, hospital and court security, and the operation of everything from speed cameras to country rail services.

Kennett also imposed the requirement that local governments adopt competitive tendering processes for their services. In addition to the privatisation of existing assets and services, private companies were chosen for construction of new projects, like the CityLink toll road network, on the "user pays" model.

Under the corporatisation model, popular opposition to privatisation was smothered by "secrecy invoked under the principle of 'commercial in confidence'", Woodward wrote. The Kennett government spent millions of dollars on advertising to grease the pathway for privatisation. The agenda was propelled by incessant propaganda about paying down debt, correcting irresponsible economic management by government, and promoting the "greater efficiency of the private rather than the public sector", wrote Woodward. "In other words, the zeal with which privatisation had been pursued by the Kennett government is the product of an ideological commitment rather than any economic imperative", he asserted.

Decades later, that assessment is borne out fully. A 2013 report by the Australia Institute, "Electricity and privatisation: What happened to those promises?", contrasted pledge with reality, revealing that privatisation has in actuality "contributed to price increases". It pointed to a productivity slump in the electricity sector, including due to a large rise in the ratio of managers, administrators and marketers, compared to workers actually producing energy, in part due to the carving up the industry into smaller segments. The profit motive of privately run businesses was another big factor driving up prices.

The report notes that Project Victoria leaders Des Moore and Michael Porter (Mont Pelerin Society think tank leaders who scripted the plan; see Part 1, "How Jeff Kennett's Victoria paved the way to neoliberal hell", *AAS*, 20 March) had promised that private ownership would deliver—in their own words—"the incentives of 'profit motive, and the disciplines associated with the markets' to 'eliminate waste and inefficiency'". But the cost of electricity Australia-wide increased by 170 per cent between 1995 and 2012, compared with 60 per cent overall inflation, according to the Institute. Indeed, in the 1990s Australians enjoyed the cheapest power of any nation; today we pay the highest electricity prices in the world, according to a 2016 report, "International comparison of Australia's household electricity prices". Prices have soared even higher since then.

Boon to banks and big corporates

Kennett shovelled the proceeds from the sale of state assets into paying down debt, funnelling money to banks and receiving a "triple A" credit rating in return. But the "debt crisis" had not been real—it was "a skilful marketing strategy" conducted by right-wing think tanks, wrote David Hayward, Emeritus Professor of Public Policy and the Social Economy, in another essay in the same book (reviewed in Part 1). A poll undertaken in 1991 by the predecessor Kirner government (1990-92) revealed that most Victorians surveyed had no idea what the state debt even was or why it should be of concern. Even the main author of the debt charade used to justify the sell-off, the Project Victoria consortium, noted in its program *Victoria: An Agenda for Change* that the "value of [the state's] assets would undoubtedly exceed net Victorian public sector debt. In this sense, therefore, the state government itself can never be considered a candidate for bankruptcy *per se*." As Woodward points out, borrowing to invest to spur growth can be a good thing; selling assets too cheaply, including by underestimating future income streams, can be a mistake.

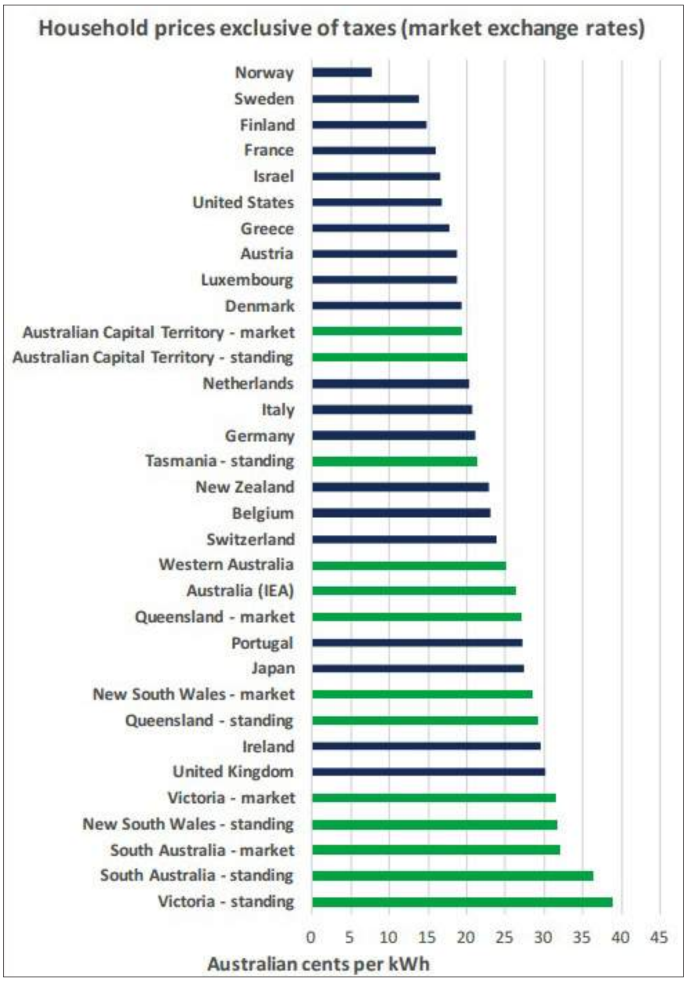
At the time, estimates suggested that Victoria lost revenue worth around $1.7 billion *per year* by privatising electricity alone. As the Citizens Party wrote in its 1996 *New Citizen* exposé "Stop the great privatisation rip-off", that was $1.7 billion annually "going out of the country to the coffers of the new multinational owners." Total SEC assets were estimated to be worth $23 billion. It was impossible to know anything for sure because the Kennett government refused to make the details of it deals public. So shrouded in secrecy was the operation, that for the sale of United Energy—one of the five energy distributors—the Kennett government dismissed the services of the State Auditor General and hired Arthur Andersen to sign off on the sale. The big international audit firm, whose true pedigree would not be revealed until 2001 when its client, US energy giant Enron, was found to have committed systemic accounting fraud, was reportedly paid $1 million for 20 days' work.

The banks also cleaned up. As the Citizens Party documented in 1996, while privatisation lumps citizens with reduced services, higher costs and job losses, banks benefit in numerous ways. They collect on a hefty percentage of the sale when state governments pay off debt; the same banks provide finance to the buyer of the asset at a lucrative margin; and banks are often engaged to advise and prepare the asset for sale, negotiating the terms and conditions. In Victoria's case, the internationally notorious investment bank CS First Boston was a big winner, receiving $20 million to market the electricity supply companies alone. It also advised the federal sale of the Commonwealth Bank.

Flawed model?

Woodward noted that the privatisation agenda was "closely modelled on the British example" provided by the Thatcher government, with overseas consultants employed for advice. As a creature of the Mont Pelerin Society's premier think tank, the Institute of Economic Affairs, Margaret Thatcher opened the floodgates to full-fledged economic rationalism. (Not coincidentally, Thatcher was one of the earliest political hyperventilators over the threat of climate change, another major cause of the destruction of energy systems, but in the name of saving the planet.)

Woodward addressed the big issue raised by all of this: "At the core is the role of government. Increasingly under Kennett, government is seen as a business enterprise with its prime goals being efficiency and the 'bottom line' of the balance sheet. The latest management fads reign supreme and citizens have been redefined as 'customers'. There has



Household electricity prices (cents per kWh) at market exchange rates, excluding taxes, 2016. Photo: "International comparison of Australia's household electricity prices", report prepared for consumer network, One Big Switch.

been an obsession with restoring the government budget to surplus and reducing state debt, almost as though these were ends in themselves rather than possible means to providing a better livelihood for citizens."

Woodward challenged the assumption that private enterprise is more efficient than public operations. Studies often trace the source of government "inefficiency" to the need to deliver upon public service obligations—that is, to ensure the poor and disadvantaged have access to crucial services. "The assumption that market-determined outcomes are better than government-determined ones invites the question, better for whom? Clearly, economically disadvantaged groups suffer if the marketplace is the sole distributor of goods and services. Faith in market solutions is premised on markets functioning in terms of 'perfect competition'. In theory, there should be myriad buyers and sellers equipped with 'perfect knowledge' and each incapable of influencing the market price. In reality, this seldom happens, as competition tends to lead to oligopoly or monopoly."

But this is not a flawed model. It is accomplishing exactly what it was designed to do. Victoria's debt may have reduced temporarily, but we long since returned to the same boat, only with heavily reduced revenue flows and almost nothing left to sell. Our greatest wealth has been transferred into the hands of a corporate elite, the mates of the neoliberal policy designers. The real solution to the problems we face is to grow the economy with credit issued by a government bank, directed by both government *and* free enterprise into crucial areas of the productive sector requiring investment.

To be continued.

A case study in austerity, Part 3:

Kennett outsources the state

By Elisa Barwick

Australians familiar with the sluggish pace at which new incoming governments, state or federal, implement the policy agendas they promised during the preceding election campaign, would be surprised at the speed at which Jeff Kennett's government in Victoria in the early 1990s began to tick off its checklist of goals. With hindsight, it is stunningly clear—as asserted in Parts 1 and 2 of this series—that Kennett's policies were not only fully prepped, they were pre-cooked and ready to be served. Unusual for a political party perhaps, but not for the local arms of international think tank the Mont Pelerin Society, which had prepared blueprints for governments across the world. Victoria had been readied as a test case for Australia.

The programs to reform the labour market, the public service, and public functions from healthcare to the justice system, hinged upon turning them over to the free market. According to ideological belief—guided by the doctrine of neoliberalism boosted by the Thatcher and Reagan governments of the 1980s—the injection of "economic freedom" would sort out all of Victoria's problems. Even within the short term this was not borne out, but nonetheless, every state followed the lead established by Victoria, as did the federal government of John Howard.

A 1999 essay, included in the book *The Kennett Revolution: Victorian Politics in the 1990s*, reported on what the Citizens Party had uniquely identified as this program was being rolled out: the policy program had been laid out in advance by neoliberal think tanks funded by the big end of town. They were not acting in the public interest, despite Kennett claiming that such was the aim of his reforms, but sectional private interests. *'Economic Freedom': Industrial relations policy under the Kennett government*, by Julian Teicher and Bernadine Van Gramberg, specialists in industrial relations from Monash University and the Victoria University of Technology, noted in their article for the book that "the most radical labour-market 'reform' attempted by any Australian government" had been scripted one year prior to Kennett's election by Project Victoria, a collaboration between MPS think tank the Tasman Institute and the Institute for Public Affairs (IPA). Kennett, a darling of big business, was the man for the job. He was hand-picked by his mentor, ANZ Bank chair and IPA Council member John Gough.

The "substance of government policy was provided" by these right-wing think tanks, the authors wrote, without mentioning their MPS mother, along with the union-busting H.R. Nicholls Society. "The government was also inspired by the *New Zealand State-Owned Enterprises Act* and the *State Sector Act*, and … the [British] Conservative Party's 'Next Steps' program", a civil service reform program inspired by the head of Margaret Thatcher's "Efficiency Unit", Sir Derek Rayner.

"Within three weeks of its election", wrote Teicher and Gramberg, "the state government repealed the *Industrial Relations Act 1979* in its entirety, replacing it with the *Employee Relations Act 1992* (ERA)", which deregulated labour markets by introducing individualised employment relations, a reduced role for government and regulatory agencies, and foreshadowed the diminution of the power of labour unions.

In opposition in 1985 Kennett had identified with neoliberal notions, declaring: "We will follow a policy of systematic and continuing restraint in government. To cut the cost of government and free up both the economy and society, *we will totally revise the role and the powers of government*. We will not merely halt Labor's irresponsible expansion of the public sector, but drastically reverse it." (Emphasis added.)

Jeff Kennett's economic policy agenda was ready to go long before he was elected; within three weeks major legislation was passed. Photo: Screenshot

Project Victoria's preliminary report, *An agenda for change*, fit the bill. The "Economic Freedom" essay noted that the project was funded by a group of 12 major corporations and 13 industry associations. "Although the resulting detailed policy proposals reflected the interests and perspectives of the business sector, they were presented as being in the general public interest." Tasman Institute founder Michael Porter's summary of the program called it "a major restructuring of the strategy expenditure programs of the government of Victoria, as well as a broad-based strategy for increasing productivity and living standards, by privatising, corporatising and contracting out many current services of government."

The *Public Sector Management Act 1992*, another recommendation of *An agenda for change*, accompanied the *Employee Relations Act*. It abolished the Public Service Board and began the process of applying private sector principles to the public service. Public servants now came under the jurisdiction of the ERA, allowing for short term contracts, casual employment conditions and de-unionisation.

Kennett's industrial relations reforms, wrote Teicher and Gramberg, were based on the notion that "labour is seen as tradable, like any other commodity in a competitive environment". The reforms were "designed to boost managerial prerogative and power in the workplace under the guise of 'economic freedom', which clearly ignored the power disparity between employees and employers in the employment relationship." In a 1996 paper, economist John Quiggin wrote (in Teicher and Gramberg's summary) "that most of the added economic activity in the state came from transferring wealth from labour to the owners of capital."

Corporate government

These early legislative acts of the Kennett government prepared the path to a new, corporate incarnation of government, including the outsourcing of its functions to private consultancies.

In Victoria, in pursuit of this new strategy, the number of government departments was cut from 22 to 13, noted another essay in *The Kennett Revolution*, "'The quiet revolution': Public sector reform in the Kennett era", by Deidre O'Neill, then a lecturer in management at Monash University. Quiet, because, as O'Neill pointed out, the usurpation of the traditional model of government was conducted with very "little attention from the press and public alike". The *Public Sector Management Act*, she wrote, "marked a watershed in Australian public sector management" which saw "frank and fearless" advice from the public service become a thing of the past, replaced by "a new model of public management". Within three years, Kennett proudly announced he had slashed 50,000 jobs from the public sector, wrote O'Neill, through privatisation, and extensive use of competitive tendering and contracting of work. (Not mentioned is New Public Management, a doctrine tested in New Zealand; see AAS, 25 May 2022.)

"The justice system and accountability" by Linda Hancock, another essay in the book, looks at the impact of the deregulation and outsourcing of the administration of policing, and privatisation of prisons. A public policy lecturer at the University of Melbourne, Hancock charged that under the "hard economic liberalism" of Kennett, "Accountability has changed structurally and directionally, with the traditional bureaucratic approach giving way to a narrow emphasis on budgetary control through corporatised structures and regulator bodies. Parliamentary scrutiny has been diminished, and the changes have taken place in the context of politicised and silenced public and community sectors. Despite the rhetoric that the public service revolution has made government 'more accountable', this shift raises important questions of citizenship and accountable government."

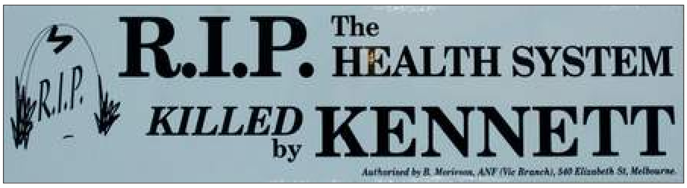
Hancock outlines the "contract state", where government acts as a mere intermediary for the provision of services, under private contract, to the public. This raises questions, particularly obvious in relation to the justice system and private prisons, such as "delegating the power to punish to private interests". Such a function was traditionally the purview of the state which creates the offence, imposes the sanction and enforces the law. Not to mention issues with accountability, transparency and regulation, including in relation to the commercial confidentiality claimed by corporate entities.

Neoliberal healthcare hell

Nowhere are these problems more transparent than in healthcare. The problems in the healthcare system, with which all Victorians are familiar, are far from new. They certainly existed prior to Kennett's premiership, but there is no doubt that his "solution" stripped health capabilities, making matters dramatically worse.

Following the Citizens Party's 1996 exposé, "Stop the great privatisation rip-off!", cited in the first two parts of this series, in 1998 ACP published "Australia's health care 'reforms': A Nuremberg crime against humanity", featuring reports on the trial state of Victoria, and New Zealand, a world leader in MPS "market reforms" for health. On top of Project Victoria's *An agenda for change* (1991), the group's subsequent report, *Towards a healthier state: The restructuring of Victoria's Public Health Services* (1992) called for: the privatisation of 3,130 of the 5,360 state nursing home beds; "making better use" of private hospitals by closing 1,300 public hospital beds; slashing salaries and staffing rates for the remaining public hospitals; reducing administrative staffing levels to those of 1987-88; busting unions and replacing them with "enterprise bargaining"; cutting non-medical staff; corporatising hospitals; and "contracting out" services. Overall, it demanded a "major down-sizing in the Victorian Health Department", and "a move to a competitive market situation".

At the time of the ACP's 1998 report, the Victorian hospital system was at breaking point, with growing reports of emergency departments on bypass, patients on trolleys in corridors and nurses cleaning toilets. Some 1,400 beds had been closed and 40,000 jobs slashed just in five years, while hospital admissions soared. Waiting lists had grown 22 per cent since Kennett came to power.



An Australian Nursing Federation bumper sticker protesting Kennett's destruction of healthcare. Photo: Victorian Collections

To enforce the budget cuts, "case-mix" guidelines were set, forcing costs beyond those allocated per patient onto the hospital, and fining them if admissions went beyond the allocated time. The horror stories that resulted are too numerous to recount here; nonetheless the model was copied by most other states. With funding based on the number and type of admissions, fudging of figures, including for waiting lists, and "phantom admissions" became commonplace.

Alistair Harkness, a Monash University postgraduate student at the time, addressed these impacts in "Prognosis negative: Health care economics and the Kennett government", another essay in *The Kennett Revolution*. "An auditor-general's report", he recounted, "discovered that patients were receiving poorer healthcare under case-mix funding, and that some public hospitals were in financial crisis. Mentally ill and aged patients and those suffering from chronic illness were most disadvantaged because of the pressure on health networks to treat patients with more 'lucrative' illnesses."

Another telling example of the failure of market reforms was the Intergraph scandal. Freed from the supposed corruption of government bureaucracy and exposed to the alleged freedoms of the open market, Victoria's ambulance service certainly didn't improve. Emergency service dispatch functions were outsourced to a private firm, Intergraph, with its parent company in Alabama. From the start the service was plagued with problems, costing the lives of Victorians, including during fatal 1997 bushfires in the Dandenongs when its system failed and firefighters had to use whiteboards. A scandal about the government's tender process led to the Auditor-General recommending a royal commission or judicial inquiry, warning that the Intergraph tender "at best involved serious mismanagement or, at worse, constituted corrupt activity". It was revealed that Grant Griffiths, the head of the company Griffiths Consulting, which advised the Metropolitan Ambulance Service on the tender process, was in fact working for Intergraph at the time! Further, after the initial tender, a far more lucrative extension of the contract was made *without tender*. A shelf company controlled by Griffiths was paid a handsome "performance bonus" by Intergraph for securing the deal, wrote Harkness. But that's the way the sausage is made in the private sector.

"The Kennett government's approach to health", concluded Harkness, "has been largely ideological" in its drive towards "small government and a greater emphasis on the private sector. The cost cutting has resulted in numerous hospital closures".

The cost of such ideology is deadly: The ACP's 1998 article cited Dr Graeme Brazenor, Chairman of the Australian Association of Surgeons, Victoria, who charged that the budget cuts are "causing people to die unnecessarily" and that if the public hospital system "was a dog, you'd shoot it"; Rod Morris, Secretary of the Ambulance Workers Union, Victoria, declared Kennett was "using tactics which would not be misplaced in Nazi Germany".

To be continued…

A case study in austerity, Part 4:

Financial deregulation propels Kennett's rise

By Elisa Barwick

The economic recession of the early 1990s, catalysed by radical financial deregulation, caused the financial troubles in Victoria that made Jeff Kennett a shoo-in for premier. As public policy expert David Hayward stated in a 1999 essay, the recession caused growth in Victoria to shrink by 5 per cent and employment to collapse, with "a devastating impact on the state budget". Stamp duties collapsed by half in just three years, state revenues from sharemarket activity fell 31 per cent, and federal grants were reduced.

The recession was the result of policy decisions that siphoned investment away from the real economy and fostered a shadow economy of speculation. Kennett and his backers were happy to obscure the reasons for Victoria's budget crunch, to level singular blame at the Labor government with the election slogan, "Labor: The Guilty Party", in the 1992 election campaign. This served the broader agenda of the Mont Pelerin Society team behind Kennett, to wind back government and literally outsource it to the private sector. The program was called *Victoria: An Agenda for Change*, but Victoria was only the pilot state; the plan was to roll out the same policy across all other states and at the federal level. (For an insight into the reasoning behind that agenda, see p. 7)

As Hayward wrote in "'A financial revolution?' The politics of the state budget", published in *The Kennett Revolution* (discussed in Part 1), "A string of financial collapses during the early 1990s associated with financial deregulation and high interest-rate policies—both federal government policy decisions—forced [state] Labor to meet a variety of unbudgeted-for expenditures. The collapse of the State bank for example, left the state with a $1.2 billion non-performing loan portfolio built up by the bank's merchant arm, Tricontinental. Some $150 million was required annually to meet these costs."

These images from a Kennett ad campaign in 1996, show the strategy to blame state Labor for Victoria's fiscal crisis, rather than federal financial deregulation—where the blame really lies—and which both parties now support. Photo: YouTube

For Kennett and his team, it was the perfect crisis—to pave the way for an agenda of drastic reform.

Tricontinental troubles

The spectacular rise and fall of the merchant bank Tricontinental—named for its original owners on three continents—must be seen against the tumultuous backdrop of financial deregulation in Australia commencing in the 1970s and picking up pace through the 1980s. So contends a treatment of the fiasco, *Tricontinental: The rise and fall of a merchant bank*, by Hugo Armstrong and Dick Gross (Melbourne University Press, 1995).

Financial deregulation, the book notes, was the process of dismantling the nation's banking rules, most of which had emerged from the 1937 Royal Commission into banking. Such rules included restrictions on speculation, minimum durations that banks must hold deposits, limits on lending, and central bank controls on interest rates.

As the book recounts, Margaret Thatcher was elected in the UK in 1979 and the following year, Ronald Reagan became US President, marking the start of a global shift to market liberalisation. It was in January 1979 that the Campbell Inquiry into the financial system started up in Australia, under the government of Malcolm Fraser. But major strides would not be made until the advent of Bob Hawke's government in 1983.

While the Campbell Inquiry, wrote Armstrong and Gross, "was keen to see a balance between 'government responsibility for stability' and freedom from 'intrusive government control and regulation', the whole attention of the financial community was focused on the latter."

With the deregulation recommended by Campbell, banks could operate in fields they were excluded from previously, foreign banks entered the markets, credit was unchained. Suddenly there was more competition for deposits—it was no longer the domain of only the banks. And there was more competition for loan business.

As banks moved into fields formerly dominated by merchant banks (which had emerged in the 1950s but did not proliferate until the 1970s), such as lending in short-term money markets, merchant banks migrated into increasingly risky investments such as futures and exchange trading.

In this environment, Victoria's State Bank, which had existed since 1842, expanded from its primary domain of home lending into a fuller range of financial services for industry and the corporate sector, generating higher dividends for the government.

Tricontinental, then a private investment and financial advice outfit, continued to focus on merchant banking but moved into riskier markets where there was less competition.

The institution's director, Jack Ryan, cited in *Tricontinental*, told the Tricontinental Royal Commission, appointed in 1990: "In this period, there was what I would regard as a fundamental change in banking culture for banks … Instead of growing liabilities [bank deposits] their approach was to grow assets [loans]. This change of approach meant a great increase in the scale of lending operations. This is reflected in the huge increase in the number of personnel in the corporate and international area."

With the "shackles of regulation" removed, and all players now at the table, the stage was set for a mammoth increase and subsequent fall of asset prices, wrote the authors. "[T]ides of capital … wash[ed] over national boundaries in the search for new investment opportunities. Banks and other financial corporations 'threw' money at borrowers to preserve market share in a market where the rules were changing with bewildering speed." One commentator, wrote the pair, said the "post financial deregulation growth in the money supply (was) two to three times the rate necessary to finance the growth in the economy". By the mid-1980s all forms of debt and credit surged, deployed by "entrepreneurs" who were often portrayed as folk heroes, but were actually corporate raiders profiteering from asset inflation and worse. These included the likes of Alan Bond, Laurie Connell and Christopher Skase. But even the most "worldly and wise" of investors, wrote the authors, got sucked in. Stock markets and commercial property boomed.

It all started falling apart with the 1987 stock market crash. Merchant banks like Tricontinental, which held shares as security for loans, got burnt. Ultimately, it and three other Australian merchant banks disappeared. Virtually no financial institution was spared from loss or scandal, as with the big players of the corporate world. This was the era of the Pyramid Building Society collapse, and corporate cowboys like Skase fleeing the country.

Tricontinental was embedded in all these networks; yet, say the authors, because it was rescued by the State Bank, "much of the attention the saga generated stemmed from the political overtones of state ownership". Indeed, this was exactly the impetus the Mont Pelerinites needed to grease the transition to private control of government functions.

State Bank to the rescue

Soon after it started, the State Savings Bank of Victoria earned a reputation as "the people's bank", primarily lending to workers and labourers in an expanding economy. The Bank offered mortgage loans and funded construction of low-cost housing estates, becoming the largest home builder by the mid-1920s. With its growing deposits it purchased government securities, thus providing loans to governments, including local councils and public authorities, for works and utilities.

The inflation and economic slump of the 1970s meant deposits were harder to come by and a series of amendments to the Act which oversaw the Bank's function made it almost equivalent to trading banks. The bank was able to trade in the short-term money market, taking in overnight surpluses, investing in bills of exchange to provide temporary liquidity to business, and expanded into merchant banking, which includes investing, trade financing and issuing commercial paper—all to aid its competitive position. This escalated after the Hawke-Keating financial deregulation of 1983. ("Unleash the power of state banking!", *AAS*, 16 Sept. 2020.)

As noted in *Tricontinental*, the State Bank's foray into merchant banking commenced in 1975 when it acquired 20 per cent of Westralian, a small Perth merchant bank, which was recommended by its WA counterpart, the R&I Bank.

Unfortunately, due to its heavy exposure in a soured mineral sands development, after the takeover Westralian was almost bankrupted and its only salvation was merging with Tricontinental in 1978, at the suggestion of Tricontinental Managing Director Geoffrey Redenbach who got his start in banking at JB Were & Co. Victoria's State Bank found itself with a new partner.

Upon the merger with Westralian, Tricontinental began taking on bigger risks, entering the field of financial futures trading. Deregulation meant that futures were no longer restricted to use by producers hedging against future price fluctuations, but could be used by investment bankers to protect against interest rate variations, and ultimately, speculation in futures contracts themselves became the main game. Wrote the authors of *Tricontinental*, the bank "wasted no time exploiting the most exciting aspect of the futures market to those prepared to back their judgement: the ability to trade without having to outlay large sums of cash up front." But as Tricontinental found itself in the headlines due to risky operating practices, including a gearing ratio that was higher than 30:1, sometimes leaving it in a credit crunch, its actions "began to undermine Tricon's acceptability as a place to deposit money, despite it offering more than competitive interest rates", wrote Armstrong and Gross.

Tricon was increasingly a creature of an elite clientele, which included "names such as Skase, Bond, Herscu, Avram, Lew, Turner, Laurance and Goldberg", wrote the authors, citing the Tricontinental Royal Commission, which noted that: "Many of Tricontinental's clients were precisely the businesses which would participate most vigorously in the asset speculation, based on the ready availability of credit, that was characteristic of the period 1985-88. With the client base that it had at the end of 1984, Tricontinental could not have been better placed to participate, as a financier, in the asset boom that was to come."

The Westralian-Tricon merger meant the State Bank was heavily exposed to Tricon's aggressive strategies, but as financial troubles worsened, by 1985 the State Bank had little choice but to buy out the other partners of Tricon, now the country's largest merchant bank, to try to make good on its investment.

It wasn't keen to stick with this arrangement, but the market crash of 20 October 1987 interrupted moves to prepare a public float of Tricontinental, which would have removed it from the State Bank's ownership. Tricontinental held a substantial share portfolio but additionally its loans were secured by over $2 billion worth of shares, the book reported. It was also exposed to other collapsed financial houses, such as the Perth-based Rothwells, and other operations in which its corporate cowboy clients were involved.

The State Bank looked for alternative ways to dispose of its investment, but prospective sales and mergers were "absolutely doomed to failure because of the time bombs within Tricon's loans book", Armstrong and Gross noted. Ultimately the State Bank was forced to fully absorb Tricontinental, and all of its obligations. Transcontinental's investment portfolio continued to decline and the State Bank itself had some $100 million of bad corporate loans. The collapse of Pyramid in 1990 and subsequent political storm fed the frenzied environment. The state government had to promise to make Pyramid depositors whole and turned to the State Bank to cover the cost; there were runs on some State Bank branches. When the full losses of Tricontinental and the State Bank were revealed, the government moved to sell the State Bank to cover the debt and federal Treasurer Paul Keating approved its takeover by the Commonwealth Bank. The nation's longest-running state bank and the nation's fifth largest bank was no more. Fatefully, the decision kicked off discussions about privatising the Commonwealth Bank, led by Keating.

Amid a serious deterioration of state finances, Premier of Victoria John Cain resigned, replaced by Joan Kirner, and setting the scene for Kennett's rise, with his retinue of globalist think tank advisers. One of them, Sir Ian Potter, a former director of the World Bank and pioneer of merchant banking in Australia, was in the middle of the Tricon scandal. Potter, an Anglophile Melbourne stockbroker, had founded Tricontinental. Potter was a key figure in the Institute of Public Affairs (IPA), one of the arms of the Mont Pelerin Society which wrote the script for the financial deregulation that devastated Victoria's and the nation's finances. As noted, the IPA, with the Tasman Institute, wrote Kennett's program *An agenda for change*, to turn Victoria towards even more extreme deregulation and neoliberalism, guiding the nation further down the path to destruction by dismantling the physical economy and critical services. A key collaborator of the "Money Power", Potter had fought Prime Minister Ben Chifley's attempt to nationalise the banks in 1947; he "worked day and night ... in preparing the private banks' defence", according to *A Century of change*, by Graeme Adamson ("Chifley to Menzies: the fascists served the bankers", *AAS*, 2 Sept. 2020). Potter founded the country's largest brokering and underwriting house, Australian United Corporation, in collaboration with British-owned merchant bank Anglo-Australian Corporation, a partner in the City of London's Morgan Grenfell and Lazard Bros.

Ironically, it was the perils of deregulation and neoliberalism that brought on Victoria's "debt crisis", and with it the rise of its up-and-coming star, arch neoliberal Jeff Kennett.

How MPs' brains were painted neoliberal

By Elisa Barwick

A paper written 56 years ago this month, celebrating 25 years since the birth of the Mont Pelerin Society (MPS) -affiliated think tank the Institute of Public Affairs, highlights the goals of an international financier elite which in the wake of World War II recruited economists and public policy advocates all over the world to crush the power of national governments, particularly the power to create credit and develop nations for the public benefit. The goal of the MPS and related agencies, including the Bank for International Settlements (BIS), was to ensure that power would remain with a private elite, which could make the masses subsidise their system in the name of economic ideology, despite the fact that their efforts to implement such an order had resulted in Fascism and Nazism. (See *The Genesis of Austerity*, available at citizensparty.org.au)

The paper, published in the *IPA Review*, Vol. 22, No. 2, noted that WWII had two years left to run when the IPA was founded, but that a "new order" was already threatening to sink the order of the past with the newfound belief that "everyone would have a job, a decent minimum standard of life, rising living standards, and the opportunity to make the most of themselves."

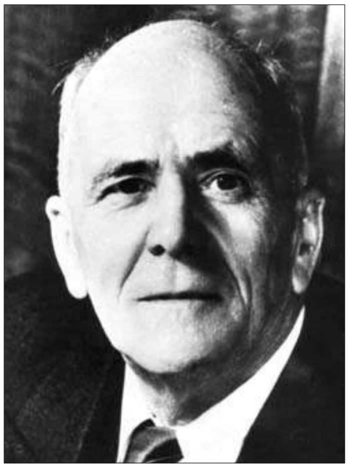
These ideas were "suspect" in the business community and elsewhere, said the paper. "In the goal of 'full employment' (a term that had just been born) they saw a menace to industrial discipline and honest work; in 'cradle-to-the-grave' social security, a destroyer of personal self-reliance and character; in greater equality, a threat to enterprise."

But the pre-war economy was seen to have failed. "Therefore the private enterprise system had to be replaced by a socialist society of planning, extensive government controls and nationalised industry. In the minds of great numbers, and especially in intellectual circles, post-war Australia was coming to mean a socialist Australia."

The IPA was "conceived and founded by a group of prominent businessmen" to resist this trend, with funding from "banks and finance companies, insurance societies, mining enterprises, manufacturers, wholesalers, retailers and pastoral houses, and a wide range of building, transport and other activities". Its governing Council consisted of "men occupying prominent positions in some of the most important enterprises in Australia".

The IPA's aim would be achieved "only by diverting the tides along different channels: in other words by evolving and holding out the prospect of a more attractive alternative. Where socialism was concerned with the virtual overthrow of the free enterprise system, the alternative had to concern itself with its radical reform and improvement." Notably, that indicated retaining the same basic tenets, but couching them in a more acceptable form, until the tide could be turned.

The document noted that this aim "could be best exerted outside the field of direct political participation". The paper doesn't say so, but this was the express advice of the founders of the MPS apparatus, as spelled out by Austrian economist Friedrich von Hayek to Antony Fisher, founder of the British Institute of Economic Affairs, ahead of the 1947 summit that formalised the global constellation of think tanks. Hayek warned him against wasting his time on a career in politics. Better to influence politicians, as the IPA's first president G.J. Coles had indicated when he told the first IPA Annual Meeting in 1944 that he wished to "create a modern political faith", which neoliberalism has truly become for today's MPs.



Sir George Coles, founder of Coles supermarkets, headed the IPA to "create a modern political faith"—neoliberalism.

The first major manifesto of the outfit, "Looking Forward", enjoyed "an astonishing circulation for an unavoidable technical economic and industrial report", with praise cited from Robert Menzies at the time when he was convening the new Liberal Party, in 1944. It had a big impact on policy not only for its ideas but "because its conclusions were supported by wealthy and influential interests", the paper reported.

But "vital economic truths had to be repeatedly emphasised if they were to penetrate the public consciousness", so many more booklets followed. Many were republished by the Melbourne *Herald* and other Australian dailies, and were so well received that the *IPA Review* was launched as a "regular medium".

The IPA's weight grew in the effort to stop PM Ben Chifley making wartime banking measures permanent. "The conflict between free enterprise and socialist ideas in the late 1940s centred upon the perpetuation of war-time controls (especially price controls, rationing and capital issues), the concept of total government planning and nationalisation of key industries", the paper elaborated. "The attempt to nationalise the private trading banks in 1947 seemed to herald a major advance toward the socialist goal.

"'Review' explored these issues in considerable depth and contributed notably to the swing in opinion which eventually culminated in the rejection of the socialist party in the Federal elections in December 1949." That is, the ousting of Old Labor and the ascension to power of Menzies, thus embarking on the long road towards full deregulation and liberalisation of the Australian economy (Almanac).

The *IPA Review* was targeted at the audiences von Hayek had specified in his conversation with Antony Fisher. He told Fisher that the key players would be "intellectuals" who could promote the desired ideas, and encouraged him to form "scholarly research organisations to supply intellectuals in universities, schools, journalism and broadcasting with authoritative studies of the economic theory of markets and its application to practical affairs."

The IPA report said: "Not designed for popular consumption, but based on serious research, 'Review' was directed toward leaders of opinion in the main sectors of Australian affairs—business, trade unions, the press, members of parliament, senior public servants, and schools and universities."

The most significant demand, it continued, came from "the schools for use in senior classes"; in 1968 it was provided to over 700 schools. Later it expanded into factories and offices, with the publication "Facts".

Of course, the paper skites about the IPA's achievements, particularly in industrial relations. It also highlights its position against "growth achieved at the cost of inflation"—code used by the austerity crowd for blocking governments from creating national credit—and goes on to suggest that "this view is now generally accepted in responsible circles". Perhaps not for much longer.