

TURNING *the Tide*

The 80s saw shrinking public sectors and the collapse of the state-run economies. Around the world, defenders of the public sector looked defensive and out of touch. Is the tide now beginning to turn? Peter Baldwin and Peter Robson discuss how the Left can recover the initiative.

Peter Baldwin is the federal Minister for Higher Education. Peter Robson is the joint national secretary of the Public Sector Union. The discussion was chaired by David Burchell.

Since the last election there have been several major policy controversies involving the public sector in which the Left has found itself forced onto the defensive. Examples that come to mind are the Telecom debate, the debate over the privatisation of Australian Airlines and the part-privatisation of Qantas, the Commonwealth Bank decision and, most recently, the ALP's uranium policy. In all of these the Left has been forced into reacting and defending the status quo against the forces of change. Is there a danger with these debates that the Left will become simply a large protest group?

Baldwin: A key part in the background to this phenomenon is the developments in Eastern Europe since 1989. I think it's important not to underestimate the significance of those

events for the Left in the West, including Australia. It's all very well for us to seek to distance ourselves from the societies and economic systems of the old Soviet bloc. Ultimately, though, that's simply a form of escapism, and we really have to come to terms with that legacy. Until we do, it's going to be difficult to reconstruct a credible position for public enterprise and an expanded public sector, the sorts of positions that the Left has traditionally espoused. Even in Caucus committees, for instance, when people argue for more regulation, Paul Keating will hurl in their face the argument that 'Gorbachev has now abandoned that sort of obsolete thinking and yet we've still got you people espousing it here'. That's a pretty tough argument to deal with. But it's no excuse for not thinking soberly about it.

Robson: Nowadays we're operating in a global economic framework. The dominant forces around the world are essentially for economic rationalism, and one of the principal pressures from those forces is for governments to do a job on the public sector. This holds true whether a conservative or Labor government is in power. In those cir-



cumstances it doesn't matter which way you look at it: you're going to get pressure to reduce the size of the public sector.

Having said that, the Left has been far too defensive about the public sector and particularly about maintaining the status quo in the public sector. We've come into the argument late, defending the public sector without having an early agenda for changing it. It's a bit late in the day for developing that agenda now because the forces, economic and ideological, which want to whittle back the public sector have been unleashed, and have already done a large part of the job.

Essentially the Left has been defensive because the role of public enterprise and regulation of the labour market have been the two tests that have separated Labor from the conservatives in a major way. When it came down to having the fight in the Labor Party about public enterprise then the Left was forced into a defensive position because we didn't have a pro-active agenda much earlier on. We're now being forced to confront the changes to Telecom, and what is certain about the Beazley plan is that it is forcing, in a very short time, the enterprise and the union movement to face up to major changes, which are going to mean the loss of thousands of jobs. If we had adopted a position about the economic arguments for a monopoly much earlier we would have been able to develop an industry plan for the monopoly which would have included changing

some of the existing work practices in Telecom. This would have meant unions having far more influence, and the community would have been in far better shape on the Telecom issue than we are today.

Baldwin: I agree with Peter that the Left has to move away from a defensive stance on public enterprise to one that affirms a positive role for it. To relate that to my earlier comments I don't think it's good enough any more simply to affirm public ownership as inherently good. In that respect the collapse of Eastern Europe has changed the whole climate in which the debate is conducted. It's necessary to put forward quite specific and practical arguments to demonstrate the benefits of public enterprise. In a whole range of areas we can do that a whole lot more effectively than has been done thus far. To take the Telecom example, there is a very good argument for public ownership based on the natural monopoly characteristics of telecommunications carrier networks. That's a clear and respectable argument in conventional economic circles, and I don't know that we really developed that enough. Nor did we develop a vision of the facilitative role that Telecom could potentially play as a key piece of infrastructure in the wider economy. A positive vision—that's what we need to try to create in future debates on public enterprise.

Robson: While they mightn't have been highlighted in the Telecom debate, those arguments were certainly there. In fact the role of Telecom as a monopoly carrier was actually very clearly dealt with in 1981 during the Davidson inquiry. But it didn't matter how good the arguments were in the recent debate. There was a broader agenda, and that meant that we were reduced essentially to two options: either we had to get another carrier, or we had to deregulate the whole telecommunications market—because that's what the economic theory dictated.

My concern about what's happening to the Left is that it's being polarised between the people who defend at all costs and those who say we've got to be part of the debate and be relevant. The present divisions in the Socialist Left in Victoria are a reflection of that. The tendency exists in the union movement as well, though we've held it together thus far. The real political question for the Left is: how far does compromise go? How much do you have to give to be relevant in the debate? I'm not sure I know the answer, but I know it's a central question. However, in facing this question from the standpoint of public enterprise, I'd say: don't defend the indefensible. The same applies, of course, to private industry.

I'm sure what we're going through in the present climate of economic debate is really a cyclical phenomenon. In ten years' time we may well again be saying: what we need in this country is a 100% publicly-owned bank because the economy's in a disastrous mess. That is a very distinct possibility. I'd even go further and say the economic agenda is already changing internationally to a more interventionist position. Have a look at what's happened in Britain since Major replaced Thatcher.

Baldwin: Or, indeed, in America since Bush replaced Reagan...



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Robson: It will be a new interventionist position, of course, not the same old one from ten years ago. And in this new climate of opinion the Left will be judged on how it handles this dilemma, about how you remain relevant without giving too much.

When you say it's difficult to know how far to compromise, I wonder if that's a particular problem for a lot of people on the Left at the moment. After all, to be clear on how far you can compromise you need to be fairly confident about your general principles, and about how to separate them from the purely pragmatic elements in your program. Yet at present there's a sense of disorientation on the Left, a lack of confidence about values, priorities and principles. Indeed, it's really not so clear what the Left stands for at present.

In terms of the public sector, the traditional Left conception of public ownership has been undermined to a certain extent. The Left has always assumed that the public sector behaves differently, and has a different sense of purpose to the private sector. Yet for the last few years public sector management has tried to behave more and more like the private sector. This raises the question: what is the distinctive role of public sector enterprise nowadays? What is its *raison d'être*? And how does that relate to how the Left looks at the world?

Baldwin: One of the problems in our approach to the debate on public enterprises stems from a failure systematically to ask precisely that question. Quite specific arguments can be made based on considerations like the natural monopoly argument and market failure. One case that comes to mind is the question of how we foster investment in activities that are inherently long-term and relatively risky. Everyone you talk to who knows something about the Australian capital market will confirm its time horizons are far too short by comparison with more successful economies such as Japan. The fact is that in Japan people contemplate long-term strategies to develop products and processes and to penetrate markets, but in Australia these things don't happen.

How do you correct that? One way is through a public enterprise vehicle like the Australian Industries Development Corporation. If you favour interventionist industry policies the AIDC has a strategic and very significant role to play. Yet a proposal to part-privatise the AIDC and thus expose its decisions to pressures from the short-term capital market attracted remarkably little debate at Labor's national conference a couple of years back. At the same time, maintaining 100% public equity in the airlines was, in the eyes of some, the be all and end all of Left ideology. There was something wrong about this set of priorities. You'd expect the airlines to conform to market signals, to be good competitors and go after market share. In other words, they had no distinctive role which the private sector couldn't have carried out equally well. But the Left was prepared to fight to the death to defend them. In the case of the AIDC, however, which explicitly wanted to do something that the market wouldn't do, the Left just wasn't interested. That always struck me as a curious anomaly in the Left's position and it was symptomatic of a broader



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malaise. We need to think in terms of a positive agenda for the public sector, to look at the strategic role it might play in broader economic strategy.

Robson: There are three simple tests for whether an enterprise should or should not be in the public sector. And the tests are: market failure, equity and access. They're pretty clear tests, and if you apply those tests there are much better arguments for some existing public sector activity than for others. In the case of Australian Airlines, when these general tests were applied, frankly the arguments were never strong. The argument came down to: why privatise it when it's doing all right now? My view about where we should be headed is that we have got to change the agenda into using those tests and then deciding what industries, both new and existing, we want in the public sector.

I believe that there's got to be much stronger intervention through the public sector in the tradeable goods sphere—particularly in the secondary processing of our

primary goods. Why not set up a public enterprise for a fixed time for wool scouring? We send 80% of the wool out of the country unscoured. Why not intervene strongly in the market because, in a sense, there's been a market failure? I much prefer the Left having that sort of agenda and sticking to it. That's a far better way of doing business than getting stuck into weak arguments about Australian Airlines. On the other hand the arguments for keeping the Commonwealth Bank in the public sector are extremely strong. In that we were taken a bit by storm, but it was an area where the Left should have made a far clearer statement of outrage, because that was a different issue—as was Telecom. In the case of Telecom, as well as the natural monopoly argument there are arguments about access and equity which are critical.

Baldwin: We need to look at what the coming social, economic and environmental priorities are for public enterprise. The environmental area is one that's particularly significant. A clear example where there's market failure is the degree of emphasis that we in this country put on developing alternative energy technologies. In the public sector research institutions—in higher education and the CSIRO—there are some very significant things being done on alternative technologies which, further down the track, could find significant world markets. Yet there is a persistent problem in attracting a patient long-term partner for these public entities, to take the innovations through the long process of developing them to the point where they're commercially marketable products. That's a clear case where public sector intervention is required. That's a positive vision; it's going into a new area.

Robson: One of the biggest problems for the Labor Party at the moment is: where is the vision? What is it fighting for, and why belong to it? Undoubtedly the attack on public enterprise was seen as a breaking point. It was a symbol. For the way ahead we've got to have different symbols. We've got to have an agenda that's right for Australia, that's right for getting out of the economic mess we're in and right on equity and access grounds.

The private sector isn't the model for the way the public sector should work. Some private sector enterprises are excellent and they're miles ahead of some parts of the public sector, but other public institutions are a model in themselves. Take for instance the difference between OTC and Telecom. OTC is a very well run enterprise which is forward-thinking and aggressive in the international marketplace. Have a look at Medicare; its administration costs per health care dollar are four cents, whereas the private funds' are about 14 cents. What we often encounter with the economic agencies of government, however, is the idea that everything done by the private sector is superior.

Another problem which still hasn't been resolved is the need to let the managers manage—because governments mostly won't let go. They want central control, and there's no better example of that than in telecommunications. One of the bottom lines for the unions was that if you introduce a competitor to Telecom, then you have to remove central co-ordinating arrangements on industrial relations, and

you have to remove loan council restrictions. Yet those battles are still far from won.

Baldwin: One of the issues we'll need to continue to address—and the Left has argued strongly on this point—is the need to change the accounting practices for public sector activities. Much of the imperative for privatisation has been based not on rational arguments about whether this or that enterprise should be in the private rather than the public sector, but rather on the need to make the budgetary aggregates look better. We treat the sale of a public asset in our budgetary accounting conventions as an outlay with a minus sign on it, which unambiguously makes the budgetary aggregates look better, even though no permanent benefit accrues to the public sector as a result. No serious economic analyst who's looked at the question will support that as a rational motivation for selling public assets. Yet it's what has been largely driving this privatisation agenda.

Another problem for the Left, along with the debates on privatisation and corporatisation, is the micro-economic reform debate—or rather, the form that the micro-economic reform debate has taken. I'm not sure that many people on the Left know exactly what they think about micro-economic reform. Inasmuch as they do, they're probably instinctively suspicious of it. But in the absence of a coherent Left position, the debate has taken on a complexion which is far from supportive to the public sector. One of the dominant images in much of the rhetoric of micro-economic reform is that of the economy as a conveyor belt producing wealth for the private sector. And it just so happens that a large part of the conveyor-belt is comprised of public sector enterprises. If anything goes wrong with the economy, attention becomes fixed on how to make the conveyor belt work better. And that means that an awful lot of attention is focused on inefficiencies in the public sector.

Robson: The economy does need restructuring and the public sector has got to be part of that process. You can call it micro-economic reform or whatever you like, but that's a fact of life. If we don't restructure, we're doomed to be a Third World country. Restructuring for the sake of restructuring, however, is the New Zealand model. If you go there, politicians will tell you: "Things are great. We've got rid of the labour laws, we've fixed the public sector up, and so on." Then, if you ask how the standard of living is or how exports are, they'll tell you they've got some problems. "We've done everything, but nothing's happening." It would be a great tragedy if we had structural change, without a view of where we're going, on the New Zealand model. I'm not sure that clear vision exists at the moment.

Having said all that I can understand why workers are sceptical of micro-economic reform, because in the last few years there hasn't been any reform of capital: only deregulation. This has benefited the sleazy dealers in capital who, in many cases, made a significant personal fortune and have done the rest of us in the eye. As a union official I certainly know that workers in the public and private sectors think that all the change is happening to them and not in too many other places.

Baldwin: The micro-economic reform agenda is another in which it is possible to take some positions with a distinctively Left quality in the sense that they involve expanded public sector activity, but at the same time are rationally defensible. For example, on the question of public infrastructure there's a growing body of evidence—from America, in particular—that failure to spend adequately on public infrastructure exacts a toll in terms of the growth of productivity. In a sense this fiscal tightness can be counter-productive if it involves putting a squeeze on necessary public infrastructure. We need increasingly to point to the counter-productivity of this obsession with fiscal austerity at the expense of the proper role of the public sector.

Robson: I want to go further on this issue than Peter. This is something that the Left has to be far more aggressive on. In the mid 70s, 8% of GDP was going into public infrastructure. Now it's about 5%. We're in a recession; one of the economic instruments that could be used to get more people back into work would be spending on public infrastructure. I have come to the view that you've got to target your spending and that should be done in the tradeable goods sector and in the infrastructure. In the current American budget there are very substantial increases in roads and rail. It might be considered a bit old-fashioned, this business of putting public money into infrastructure during a recession so that you supplement the productivity of the private sector. But it also creates jobs and stimulates the economy. We've got to be arguing far more strongly for that sort of program in this environment.

Baldwin: The contrast between the Bush and Reagan administrations is quite an interesting one because it extends both to the attitude on spending on public infrastructure and to the degree of regulation of financial markets. There is a distinct shift between the two administrations, and what that indicates is a broader shift in sentiment and opinion throughout the world. We've gone through a decade where the Left has been very much on the back foot. Deregulatory and small government policies were very much flavour of the month, not only here but throughout the Western world. You can couple that with Eastern bloc communism and Eastern Europe and the discrediting of bureaucratically-administered socialism.

Those shifts have created a period of great difficulty. But I sense that the tide is now turning, and the Left really has to think about how to position itself to take advantage of that. One thing that is absolutely essential is to foster a genuinely inquiring political culture within the Left. We must not have a situation where people are afraid to espouse their views about the direction in which the Left is going to go, out of fear of being labelled an ideological heretic. Far too much of that sort of thing has gone on in the Left in the past and we have to break with that kind of mentality if we're to progress. I've seen time and again where people are reluctant to speak within the forums in the Left for fear of being seen not to adhere to the one true path. Perhaps we are now slowly starting to get away from that kind of inward-looking culture.

Robson: It's a bit of a problem with Labor in power as well. It must be extremely hard for the Left Labor ministers who



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are part of the policy-making process to go into the robust meetings of the rank-and-file Left—meetings where often there's a purer than pure position which says don't change one bloody thing or you're a sell-out. That's a nonsense position, but it must be said that it's central for the leadership of the Left both in parliament and the unions to have a clear agenda. Even with crunch arguments over the Commonwealth Bank there has to be a position of principle adopted because the Left has taken a leadership position representing workers. That, for me, is a critical factor. Workers want to know where people stand.

Having said all that, the most important thing now, I agree, is to have an inquiring, inventive and intellectually rigorous approach to things. Labour market reform is a classic example. The world's changing rapidly, the Right's setting the agenda and we seem to be reacting. The Left in the union movement has been an important part in developing an alternative position but it can only acknowledge a certain amount of intellectual leadership. To his great credit, much of the intellectual vision has come from Bill Kelty. The Left needs to be playing more of a leading role.