2005

Neo-liberal think tanks and neo-liberal restructuring: Learning the lessons from Project Victoria and the privatisation of Victoria's electricity industry

Damien Cahill  
*University of Sydney*, D.Cahill@econ.usyd.edu.au

Sharon Beder  
*University of Wollongong*, sharonb@uow.edu.au

Publication Details  
Neo-liberal think tanks and neo-liberal restructuring: learning the lessons from Project Victoria and the privatisation of Victoria’s electricity industry

Damien Cahill and Sharon Beder

Abstract

In 1990, neo-liberal think tanks the Institute of Public Affairs and the Tasman Institute collaborated with 13 employer associations to form ‘Project Victoria’ – a venture which outlined a neo-liberal agenda for the incoming Victorian (Coalition) Government. This article analyses Project Victoria and the privatisation of Victoria’s electricity industry as a case study of the impact of neo-liberal think tanks. The analysis of Project Victoria highlights three main aspects of the impact of neo-liberal think tanks in contemporary Australia. First, neo-liberal think tanks are inextricably bound to the interests of business. Second, neo-liberal think tanks provide a broad framework within which sympathetic governments can convert the sectional interests of business and elites into policy and rhetoric. Third, the think tanks play an important role as shock troops for neo-liberalism.

Neo-liberal think tanks - in particular the Institute of Public Affairs (IPA) and the Centre for Independent Studies (CIS) - have recently been the subject of much interest from the Left and within the media. Since the election of the Coalition in 1996, neo-liberal think tanks have been prominent cheerleaders for the Howard government’s agenda and against the government’s critics. The IPA, for example, has recently celebrated the increasing casualisation of the workforce as heralding a new era of choice and flexibility for Australian workers. Activists from both the IPA (Ron Brunton) and the CIS (Maurice Newman) were appointed by the Howard government to the Board of the ABC, and the IPA was contracted to provide policy advice to the government to support its attack upon social justice based non-government organisations (Thornton 2003).

Neo-liberal think tanks form the organisational backbone of the new right or radical neo-liberal movement (Cahill 2004) which arose in Australia and grew from the mid 1970s onwards. These neo-liberals view the free market as the most efficient and most moral way of organising society, and therefore argue that functions of government be devolved to the private sector through privatisation, deregulation and marketisation.

In recent years there have been numerous valuable analyses of these organisations (Beder 2002; Cahill 2004; Mowbray 2003; Mendes 2003a; Mendes 2003b; Thornton 2003). To complement such analyses, we propose to examine one moment in the history of neo-liberal think tanks: Project Victoria and the privatisation of Victorian electricity. Such an examination offers an insight into the contemporary workings and impact of neo-liberal think tanks in Australia.
What was Project Victoria?

Project Victoria was an initiative of the Melbourne-based neo-liberal think tanks the IPA and Tasman Institute along with thirteen employer groups including the Australian Chamber of Manufacturers, the Business Council of Australia (BCA), the State Chamber of Commerce and Industry, the Victorian Employers Federation and the Victorian Farmers Federation. Commencing in 1990, the purpose of Project Victoria was two-fold: to prepare a radical neo-liberal agenda for the Liberal Party which, it was hoped, would win government; and, to put radical neo-liberal ideas on the public and political agendas in Victoria. Project Victoria was far reaching. It covered water, ports, electricity, public transport and workers compensation. Tasman and IPA prepared a number of reports and strategies on these issues between 1991 and 1993. In the lead up to the 1992 Victorian election, there were close links between Project Victoria and the Victorian Liberal leadership.

Project Victoria is a useful case study of neo-liberal think tanks for three reasons. First, in Project Victoria there is a clear and identifiable alignment of neo-liberal think tanks with capital. The relationship between neo-liberal think tanks and corporations is normally difficult to examine, primarily because it is the issue about which think tanks themselves are most guarded. The ready identification of these links in the case of Project Victoria enables an assessment of the significance of the relationship between neo-liberal think tanks and the business sector.

Second, Project Victoria is an example of neo-liberal think tanks enjoying the ear of government. Here there are parallels with the contemporary Howard regime which is clearly sympathetic to much of the output of neo-liberal think tanks. An examination of Project Victoria allows hypotheses about the present to be drawn.

Third, the government in question was committed to an aggressive neo-liberal agenda. It is therefore useful to examine the correlations between the policies advocated by the neo-liberal think tanks and the actual policies implemented by the Kennett government. Project Victoria provides a best case scenario for the kinds of influence and impact that neo-liberal think tanks are likely to achieve when a government is sympathetic to their agenda.

An analysis of the relationship between Project Victoria and electricity privatisation offers the chance to examine a broad agenda advocated by neo-liberal think tanks that was implemented vigorously by the Kennett government. Victoria is now the most privatised state in Australia and the International Energy Agency stated in 2001 that ‘for most of the past decade, Australia has been at the forefront of energy market liberalisation’ (IEA 2001). Electricity is an essential service used by virtually every person on a daily basis. It is therefore a key part of the neo-liberal transformation of everyday life. The question that needs to be addressed is to what extent the agenda outlined by Project Victoria, although broadly resembling the Kennett privatisation program, was followed through in detail by the Victorian state government and what are the implications for understanding neo-liberal think tanks today?
Project Victoria and Electricity Privatisation

Prior to Kennett’s election, the government-owned State Electricity Commission of Victoria (SECV) was responsible for the supply of electricity in Victoria. Project Victoria recommended the corporatisation and privatisation of the State’s electricity supply, generation and distribution. Such measures, argued Project Victoria, would lead to lower prices for electricity consumers and more efficient management of the industry.

A preliminary report, *Victoria An Agenda for Change*, had been released in April 1991 while Kennett was still in opposition. The preliminary report noted that the SECV had been one of the least productive electricity providers in Australia but admitted that one of the reasons had been its reliance on low-grade brown coal, which is more capital intensive to generate electricity from, and that performance had improved markedly during the late 1980s. However, it argued that more improvement would be possible under private ownership which could provide the incentives of ‘profit motive, and the disciplines associated with the markets’ to ‘eliminate waste and inefficiency’ (Moore & Porter 1991, 4-4, 4-5).

In contrast, an Electricity Supply Association study of 1000 utilities around the world found that SECV was in the top ten for efficiency of resource use and that it was also highly efficient in terms of technical efficiency of distribution. And a study by London Economics in 1994 found SECVs resource efficiency compared favourably with best practice utilities worldwide (Cited in Anon. 1995, 4; Miller 1995, 6).

The SECV in fact delivered affordable electricity to consumers whilst making a healthy profit. In 1992/3, the year before it was broken up, ‘it paid $995 million in interest, a $191 million dividend to the State Government, and had a profit of $207 million’ (Skulley 1995). An Independent Inquiry into the Privatisation of Victoria’s Electricity Industry found that in the year prior to SECV restructuring, its debt-equity ratio was 342 percent compared with an average of 382 percent for the top 20 Australian companies on the Australian stock exchange. In addition a 1994 Bureau of Industry Economics study found that Victoria’s electricity prices to industry were eighth cheapest out of 40 OECD countries (Anon. 1995, 4). That Project Victoria nonetheless called for the privatisation, deregulation and corporatisation of the State’s electricity demonstrates its ideologically driven nature.

The Project Victoria report authors were also critical of community service obligations of the state-owned electricity industry which raised the charges for most businesses. These included:

- uniform tariffs across the State to cross-subsidise remote customers;
- participation in the Victorian Government’s “Social Justice Strategy”, which reduces the number of supply disconnections for non-payment of accounts and imposes no penalties for late payment;
financing one third of the capital cost of new major public lighting schemes;
financing under-grounding or relocation of power lines where a clear community benefit exists;
providing the Home Energy Advisory Service free to people on low incomes; and
satisfying non-statutory environmental obligations. (Moore & Porter 1991, 4-6)

According to Project Victoria, these obligations caused business users to be overcharged by 28 percent (not including farmers who were subsidised) and impeded ‘competitiveness by distorting service provision’ (Moore & Porter 1991, 4-6).

In the second stage of Project Victoria, a report entitled *A Restructuring Strategy for Electricity in Victoria*, detailed how the electricity industry should be broken up and sold off, and a national grid and power pool should be developed to facilitate competition (Tasman Institute 1991, 11, 13).

The existence of Project Victoria became public knowledge well before the Kennett government’s election. Details of it were reported through the Victorian news media generating discussion about the proposed neo-liberal agenda. There was both hostile and laudatory coverage. As such, the arguments of Project Victoria were already on the public agenda prior to the 1992 election.

After its election in 1992, the Kennett government did indeed privatise the Victorian electricity industry. The first step towards privatisation was the unbundling of the SECV into three businesses in 1993: Generation Victoria, National Electricity – responsible for transmission – and Electricity Services Victoria – responsible for distribution and supply. These were eventually broken up further and sold to private interests. The government also established an elaborate power pool whereby electricity was traded among generators and suppliers.

Although average wholesale electricity prices were low at first, hourly prices fluctuated dramatically. When interstate competition began in 1998 wholesale prices dropped and some privatised companies had to sell their electricity assets at a loss. These business failures caused some concern that “assets which form an important part of state and national infrastructure are being bought and sold like common chattels, with the attendant risk that they may not be there when really required” (Booth 2000, 73). Remaining companies tried to make savings by cutting back on maintenance, something also necessitated by the much reduced workforces. There were, therefore, a number of blackouts resulting from equipment breakdowns. In 1997 a Coopers and Lybrand survey found 35 percent of the privatised companies believed “previously experienced reliability levels would/may not be provided by the market” (quoted in Hannan 1997).

Then in 2000-1 the price of electricity in the National Electricity Market increased by 60%. When retail deregulation was introduced in Victoria, price caps continued with
‘safety net’ prices being set by the government to avoid the political implications of these large price increases. Unable to pass wildly fluctuating deregulated wholesale prices onto consumers, some privatised Victorian retailers sought to sell up. Others got around government price caps by increasing off-peak electricity rates by 175 percent and decreasing peak rates to ensure average increases met with the price caps. This particularly affected farmers who take advantage of off-peak rates for many energy intensive activities. As a result many farmers saw their overall rates increase by up to 60 percent (Beder 2003, 236-40).

Competition decreased as incumbent players consolidated their power throughout Australia. By 2002 some 30 percent of the retail market was up for sale. The prospect of ‘re-aggregation’ in the industry increased as mergers and acquisitions occurred. Analysts now expect the number of retailers on the Australian east coast to fall from ten to only six by 2005 (Thompson 2002, 32). The deliberate disaggregation of the electricity industry to create competition is being undone by this consolidation.

Privatisation of electricity in Victoria had failed to deliver any increased generating capacity and generator breakdowns were threatening blackouts. Prices had increased particularly for low-income households. Ironically businesses too, which had been prime drivers of privatisation, suffered from rising wholesale prices after 2000 (Beder 2003, 236-40).

Such privatisation programs were not driven by popular opinion (Beder 2003). Instead of consultation the Victorian Government spent $1.8 million on an advertising campaign to promote the sale of the electricity industry. Nevertheless an AGB-McNair Age poll found that 60 percent of those surveyed opposed privatisation. A coalition of many church, welfare, environmental groups and unions – Public First — was formed to oppose privatisation of electricity, gas and water. A spokesperson for the coalition, Jim Ritchie, argued that privatisation would merely be ‘shifting the debt from the public to the private sector’ and provide ‘no incentive for energy conservation or moving to sustainable sources.’ (Beechey 1995, 11; Skulley 1995)

Project Victoria also had a clear anti-labour agenda. It called for large-scale public sector redundancies as well as labour market deregulation. In the words of the Tasman Institute’s Michael Porter, such strategies would remove ‘the ball and chain and the labour market practices that stop business… from prospering’. Privatisation was also seen as a way of allowing private firms ‘to get a piece of the action’ (Porter 2001) – and it is little wonder that the major beneficiaries of electricity privatisation were business interests.

The Impact of neo-liberal think tanks

Because neo-liberal think tanks are primarily producers of ideas, assessing their influence is fraught with difficulty. Nonetheless, in the case of Project Victoria, a few general points can be made. The think tanks themselves claimed a significant influence over the
Kennett governments agenda. Tasman boasted that, ‘Project Victoria’s reform agenda underlay many of the economic reforms of Victoria’ (Tasman Economics 2002). There is some truth to such a claim. Allan Stockdale, Treasurer of Victoria under Kennett, says he ‘had considerable contact with the Tasman Institute while the Coalition was in Opposition’ which ‘helped to develop’ his ideas regarding privatisation (Stockdale 1999). Prior to the election, Stockdale met privately with business executives and neo-liberal activists, including Bob Officer and the IPA’s Des Moore, to discuss the privatisation of State-owned assets (Gill 1992b). In 1996, Victorian Liberal Transport Minister, Alan Brown, spoke of the ‘profound impact’ the Tasman Institute had on the government’s policies (Brown in Anon. 1996).

Clearly the neo-liberal think tanks had good access to the Kennett-led Liberals, particularly in the lead up to the election. There was a good deal of sympathy within the Liberals for the Project Victoria agenda. Indeed, Stockdale was a former participant in the Crossroads group, a forum that in the early 1980s secretly brought together leading neo-liberal activists to discuss ideas and strategy.

To what extent, however, did such closeness and sympathy translate into direct influence? After the election the Tasman Institute became one of four consultants appointed to investigate options for privatising and deregulating Victoria’s electricity industry (Dunstan 1993). Fairbrother, Svensen and Teicher argue:

The privatisation program embarked on by the Kennett Government from the time of its election in 1992 bears much more than a passing resemblance to programs developed by a group known as Project Victoria (Fairbrother, Svensen & Teicher 1997, 18).

At a broad level this is an accurate assessment. Project Victoria’s call for the unbundling of the generation, supply and distribution functions of Victoria’s electricity industry in preparation for their eventual corporatisation and privatisation were matched by the Kennett government’s actions once elected. Widespread job shedding in the electricity industry, and legislation restricting the ability of unions to organise, as advocated by Project Victoria, also materialised under the Kennett.

Against this needs to be considered the sentiment expressed by neo-liberal activist Des Moore that the IPA was able to exert ‘very little direct influence’ upon the Kennett-led Coalition once it was elected (Moore 2001). Indeed, Moore was excluded from membership of the government’s Commission of Audit, despite being previously promised a place on it (Gill 1992a). And Stockdale argues that it was neo-liberal activist Ray Evans of Western Mining (who was close to many of the think tanks) who ‘crystallised’ for him the essential framework for the privatisation of electricity in Victoria (Stockdale 1999). Furthermore, the detailed mechanics of Victoria’s electricity privatisation were based more upon the program followed by the Tory government in Britain than upon the recommendations of Project Victoria. This is evident not only in the types of regulations constructed to establish the electricity market, but also in the comments of Robert Booth who had been a Commissioner of the State Energy
Commission of Western Australia – as well as having worked for SECV – that members of the Kennett Government’s Electricity Supply Reform Unit were selected to implement the UK model of privatisation (Booth, 2000, 52-3, 57).

A more accurate interpretation of the influence of Project Victoria is that it provided the Kennett government with the intellectual rationale for the privatisation of Victoria’s electricity providers. Rather than a blueprint, it gave an intellectual and discursive framework within which the interests of the business sectors pushing for neo-liberal reform could be converted into a broad policy agenda and defended publicly. One exception was the consultancy arm of the Tasman Institute, Tasman Asia Pacific, which was much more suited to providing concrete policy advice to governments rather than the broad manifestos characteristic of most neo-liberal think tanks.

Evan Jones’ term ‘idealist economics’ (Jones 2002) nicely encapsulates the ideology of neo-liberal think tanks in Australia with their tendency to base their advocacy not upon the political pragmatics of policy development, but on an idealised view of the state and market. Governmental micro-policy details are likely to be drawn from a range of sources.

Equally, if not more, important was the broader public role played by Project Victoria. Media coverage of Project Victoria prior to the 1992 Victorian elections generated much discussion and debate of its radical neo-liberal agenda during this period. Some of this was negative (see for example Davidson, 1991; Gill, 1991). But there was also much positive or, at the very least, non-hostile, discussion of Project Victoria. John Marsden, for example, wrote in The Age that Project Victoria ‘provides a comprehensive agenda for change in this state, an agenda with many similarities to that being cautiously but successfully followed in NSW’ (Marsden, 1991, 17).

One of the consequences of such coverage was to heighten the perception that Victoria was in a state of fiscal crisis. In such a context, the radical policy solutions put forward by Project Victoria gained added credibility – particularly when they were framed by their authors as the very antithesis of the state-centric agenda that, they argued, had created Victoria’s financial problems in the first place. Furthermore, media coverage of Project Victoria gave its anti-labour agenda a public hearing. Indeed, it enabled the labour movement to be painted as one of the prime causes of Victoria’s debt crisis, and set the scene for massive public sector redundancies after the election.

Through the media, Project Victoria was able to prepare the ground for the Kennett government’s assault upon the public sector and the labour movement. The media therefore enabled Project Victoria, and the IPA and Tasman as its public representatives, to act as a vanguard for the agenda of the Kennett government and for the interests of the corporate sponsors of Project Victoria and the think tanks.

Tellingly, after their defeat in the 1992 election, the Victorian Labor Party appointed Tasman Institute’s Bruce Cohen as an economics advisor. Cohen was instrumental in the drafting of the Victorian Opposition’s strategy (Callick 1994; Magazanik 1994),
demonstrating that, like today at the federal level, Labor was framing its opposition in terms set by the neo-liberals.

**Lessons for the new millennium**

What does this examination of Project Victoria and electricity privatisation tell us about neo-liberal think tanks today? First, it alerts us to the class-biased nature of the think tanks. Project Victoria was funded by business and had a strong anti-labour agenda. As we have both argued elsewhere, neo-liberal think tanks are not only funded by business but act as advocates of pro-business agendas (Beder, 2002; Cahill, 2004). In particular, they promote the interests of those businesses who stand to gain from the neo-liberal restructuring of the state and economy. Today neo-liberal think tanks advocate not merely neo-liberal agendas that enforce the power of capital vis a vis labour – such as the IPA’s recent glorification of the casualisation of the workforce (Phillips 2004) – they also aggressively attack activists, groups and social movements which attempt to mobilise against the anti-social affects of neo-liberalism (see Maddison et. al. 2004; Mendes 2003b; Thornton 2003). In one of the most recent of such attacks, CIS activist Peter Saunders blames welfare rights groups for creating poverty and ‘welfare dependency’ in Australia (Saunders 2004).

Second, the examination of Project Victoria offers an insight into the kinds of influence neo-liberal think tanks might enjoy over sympathetic governments as opposed to social democratic governments. In the case of Project Victoria, there was a close relationship between the IPA, Tasman Institute and the leadership of the Victorian Liberal Party. However the main influence of Project Victoria upon the Kennett-led Liberals was to provide a broad framework within which the sectional interests of business could be converted into a neo-liberal policy agenda, and to equip the Liberals with an intellectual rationale and justificatory framework for defending such policies.

Similarly, under John Howard, the government has mobilised much of the discursive framework developed by neo-liberal think tanks to defend and justify its policies. Often however, the neo-liberal think tanks call for far more radical policy initiatives than have been legislated by the Coalition. For example, the provision of choice in education is the key argument offered by neo-liberal think tanks for the privatisation of education (Harrison 1996), and it is clear that this is the source of the Coalition’s discourse on education. The Howard government has consistently employed the rhetoric of choice to defend its policy of directly allocating greater federal funds to private schools than public schools, without going so far as to endorse the privatisation of schools.

Third, the examination of Project Victoria alerts us to a broader role that think tanks play as shock troops for neo-liberalism. Due to its coverage by the media, Project Victoria softened up the public for Kennett’s neo-liberal policies, heightened the perception of a fiscal crisis of the Victorian state, and sought to lay blame for Victoria’s economic woes on unions, state-ownership of industry and Keynesian-inspired economic management. Similarly, since the election of the Howard government in 1996, neo-liberal
think tanks have undertaken a sustained assault upon trade unions, opponents of neo-liberalism, notions of social justice and the Left in general. By labelling them as ‘special interests’, ‘politically correct elites’ or part of a tax-payer funded ‘guilt industry’, neo-liberal think tanks have successfully demonised many progressive forces in Australia, and paved the way for the Coalition’s conservative neo-liberal agenda. Robert Manne, for example, has persuasively argued that the polemical attacks by new right think tanks against the notion of the Stolen Generations provided intellectual justification for John Howard’s own undermining of those indigenous Australians forcibly removed from their parents (Manne 2001).

By examining the activities of neo-liberal think tanks historically, it is therefore possible to gain valuable insights into their operations today.

References


Gill, M. 1992a. 'Call to Slash 20,000 Jobs From Victoria's Public Sector'. *Sydney Morning Herald* 29th September: 5.


Harrison, M. 1996. A Private Education For All. St Leonards. CIS


Marsden, J. Kirner [year], 'Greiner and Project Victoria'. *The Age* 10th May: 17


Moore, D. 2001. interview with Damien Cahill. 15th May.


Saunders, P. 2004. *Australia's welfare habit and how to kick it*. St Leonards. CIS.


