Losing Power:
The struggle for control of South Australia's electricity industry

by

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ABSTRACT

This thesis examines the role that structure and agency play in the outcomes of political contests around privatisation. It does so through a case study of the South Australian Electricity Trust (ETSA), which was established (nationalised) in 1946 and privatised in 1999. The approach taken involves an examination of historical context, particularly the emergence of public enterprise and the nationalisation of the South Australian electricity industry in the post WW2 period. This is accompanied by an investigation of the structural economic and political conditions that prevailed during the 1980s and an exploration of the influence of key agents upon the privatisation of ETSA. While prevailing neo-liberal ideological and political conditions generated considerable momentum for privatisation of public utilities in Australia and South Australia during the mid 1990s, these conditions alone do not explain why privatisation takes place in some contexts and not in others. Despite considerable global momentum for privatisation and the existence of a State Government committed to this objective, privatisation had little support within the wider community. The South Australian Liberal Government's proposal to privatise ETSA was vigorously challenged and nearly defeated, echoing debates surrounding the establishment of ETSA in 1946. A relational analysis of both the nationalisation and the privatisation of ETSA provide insights, which narrow economic and financial analyses often obscure.

STATEMENT OF ORIGINALITY

Losing Power: The Struggle for Control of South Australia's Electricity Industry

John Douglas Spoehr

This thesis presents work carried out by myself and does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university.

To the best of my knowledge it does not contain any materials previously published or written by another person except where due reference is made in the text; and all substantive contributions by others to the work presented, including jointly authored publications, is clearly acknowledged.

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John Douglas Spoehr
15 August 2008

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ABBREVIATIONS

AESC	Adelaide Electric Supply Company
ALP	Australian Labor Party
CLP	County Liberal Party
ETSA	Electricity Trust of South Australia
NEM	National Electricity Market
ULP	United Labor Party
SAPD HA	South Australian Parliamentary Debates – House of Assembly
SAPD LC	South Australian Parliamentary Debates – Legislative Council

Chapter 1

INTRODUCTION

1.1 Focus

The privatisation of the South Australian electricity industry in 1999 might be understood as a likely consequence of the election of a conservative government committed to neo-liberal economic ideas. However it is important to understand that Liberal Governments in South Australia were responsible for the establishment of a wide range of public enterprises including the Electricity Trust of South Australia (ETSA).[1] While a reversal of this view within the Liberal Party and to some extent the Labor Party reflects the growing influence of neo-liberal economic ideas internationally and locally it does not fully account for why ETSA was privatised. To understand this we need to examine the interaction of a wider range of factors.

While the momentum for privatisation was significant in Australia and South Australia as early as the 1980s, individual cases of privatisation cannot be explained by prevailing political and economic ideas and conditions alone. It is also necessary to investigate the role that agency plays in shaping policy outcomes like the privatisation of ETSA. Such an approach is likely to shed light on why privatisation of the electricity industry takes place in some contexts and not in others. In this context it is important to note that South Australia and Victoria are the only Australian states to have privatised the electricity industry.[2] Investigating the role that structural conditions and agency played in shaping the course of events surrounding the privatisation of ETSA is the focus of this thesis.

Inspired by the works of Marx and Engels, a debate has long flourished in the social sciences about the influence of the weight of history and structural economic and political conditions on the decisions of the day as Marx famously proclaimed:

[1] The Electricity Trust of South Australia was the sole provider of electricity to the South Australian community.
[2] There have however, been unsuccessful attempts to privatise the industry in other states including Tasmania in 1998 and New South Wales in 1997. More recently the Labor Government of New South Wales revived plans for privatisation of the industry in contravention of Labor Party policy in that state.

> Men (sic) make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all dead generations weighs like a nightmare on the brains of the living.
>
> (Karl Marx, *The Eighth Brumaire of Napoleon Bonaparte*, 1852)

The extent to which context mediates the influence of institutions and agents is the focus of considerable academic attention. This debate resonates in this thesis, which investigates forces shaping the privatisation of the Electricity Trust of South Australia (ETSA) in 1999. Central to this is an examination of the role that historical context, prevailing economic and political conditions and agency play.

While electricity industry privatisation has been relatively common in the OECD it has been rare in Australia. Understanding why privatisation of the electricity industry occurred in South Australia is a question warranting academic attention. The privatisation of ETSA generated widespread debate. While it attracted the support of South Australia's largest corporations, it was met by considerable resistance in the wider South Australian community. As a consequence a considerable body of commentary and perspectives on the privatisation of ETSA is publicly available. I have been able to draw on this in conjunction with my own research and reflections on why ETSA was privatised.

While the political economy of privatisation has been the focus of significant attention over the last decade, there have been few attempts to examine the political and economic forces shaping privatisation of the electricity industry in an historical context in Australia.[3] This thesis aims to help fill this gap in knowledge through an investigation of the forces shaping the development of public enterprise in South Australia. Central to this is the nationalisation of the electricity industry in South Australia in 1946.

For most of the 20th century nationalisation and public enterprise development was a dominant tendency in public policy (Millward 2005:6-7; 289). Feigenabaum, Henig and Hamnet (1999:11) note that 'during the three decades following the Great Depression, state intervention in national economies had become a fixed element in Western industrialised

[3] Sharon Beder 's (2003) investigation of the forces shaping the global electricity industry focuses represents one of the most thorough examinations of the political economy of electricity privatisation in Australia.

countries, and social scientists had devised a series of explanations of how this could not have been otherwise'.

A wave of nationalisations had taken place in western countries by the end of the 1940s (Millward 1993:3; Millward 2005:9) and the development of new public enterprises remained a feature of public policy till the mid 1970s. In South Australia the development of public enterprises was a feature of both Liberal and Labor Governments.[4] By the late 1970s, in the wake of the OPEC oil crisis and a growing assault on the legitimacy of Keynesian and Socialist policies, privatisation emerged as a dominant tendency in Britain and Chile (Whitfield 2001:47). By the 1980s privatisation was gathering significant momentum in the Asia Pacific region (Quiggin 1996:144). It became a feature of the policies of most governments in Australia, though Liberal governments more aggressively pursued privatisation at the state level (Ernst 1994:104-109, Broomhill and Spoehr 1995, Woodward 1999:150-153, Fairbrother and Paddon 2002:209). The main difference between the major political parties in Australia appeared to be whether they were selective or systematic in their approach to privatisation. Like the Thatcher Government in Britain, Liberal State governments in Australia appear to have embarked on systematic privatisation programs.

It was not till the mid 1990s that privatisation gained traction in South Australia. The political tide had turned against the Labor State Government, which faced the twin pressures of the collapse of the government owned State Bank of South Australia[5] and double-digit unemployment in the wake of the 1990s recession (Spoehr 1999). Both the Labor Government and Liberal Opposition responded to the crisis by announcing asset sales programs. With an election just months away, Labor Premier Lynn Arnold announced that the State Government would sell the State Bank, the South Australian Gas

[4] The contemporary Liberal Party in Australia at the State and National levels is socially and economically conservative.

[5] The State Bank of South Australia was owned by the South Australian Government. In the wake of financial deregulation in Australia in the early 1990s, the bank accumulated a lending porfolio that proved unsustainable in the wake of the recession of the early 1990s when property values in Australia fell. This led to the collapse and ultimate sale of the bank to private interests. The South Australian Government inherited a debt of around $3.15 billion from the collapse of the State Bank. See Kenny (1993) and McCarthy (2002) for differing accounts of the causes and implications of the collapse of the State Bank.

Company, grain bulk loading facilities and a number of other smaller assets (Arnold 1993).[6]

In the lead up to the 1993 State election the Liberal Party Opposition announced its own asset sales program which included the State Government Insurance Commission, Urban Land Trust, Adelaide Entertainment Centre and the Central Linen Service (Liberal Party of SA 1993:3-5).[7] Notably, ETSA was not part of the privatisation program.

Soon after the Liberal Party comprehensively defeated Labor at the 1993 State election[8] the new government embarked on a major asset sales and outsourcing program which began with the largest information technology outsourcing project ever undertaken in Australia (Broomhill, Genoff, Juniper and Spoehr 1995:221). The management and maintenance of all government information technology services was outsourced to Electronic Data Services based in the United States. In 1995 Adelaide's metropolitan water and sewerage treatment services were outsourced to the French/Anglo/Australian United Water consortium for around $1.5 billion while northern metropolitan bus services were outsourced to the British multi-national services company, Serco. In addition the management of Modbury Hospital was outsourced to US firm, Healthscope (ibid: 222-223).

The Liberal Government lost considerable ground at the 1997 State election, partly in response to community concerns about the impact of their privatisation program and the privatisation of the management and maintenance of Adelaide's water and sewerage treatment systems in particular. A mechanical failure at the privately operated Bolivar Sewerage Treatment works sharpened concerns about privatisation. This resulted in the release of millions of litres of untreated effluent which resulted in a sulphurous stench hanging over metropolitan Adelaide in the lead up to the 1997 state election. The failure at

[6] The *Meeting the Challenge Financial Statement* outlined a recovery plan in response to the State Bank financial crisis and the 1990s recession. State public sector net debt was projected to rise from $3 billion in 1990 to around $8 billion in 1993 in the absence of policy changes.

[7] The State Government Insurance Commission provided compulsory third party motor vehicle accident insurance and personal insurance. The Urban Land Trust purchased and held property in Trust for release onto the market in accordance with state land development policy. The Adelaide Entertainment Centre is a concert and conference facility. The Central Linen Service provided laundry services to government institutions, principally South Australian Hospitals and Prisons.

[8] The Liberal Party achieved a 9 percent swing that delivered it 37 seats in the House of Assembly compared to 10 seats for the Australian Labor Party.

Bolivar was ultimately attributed to lack of maintenance. Despite a strong swing against it, the Liberal Government was re-elected.[9]

Emboldened by electoral survival the Liberal Government initiated a further round of privatisations in 1998. It announced that it would sell a range of public enterprises including HomeStart, the Ports Corporation and WorkCover.[10] This represented the most ambitious asset sales program in South Australian history. The centrepiece of this second wave of privatisation was the sale of the Electricity Trust of South Australia (ETSA).

The privatisation of ETSA provides an ideal case for examining the role of the state historically. Since its establishment in the 1880s the ownership of the electricity industry in South Australia has been contested. The industry began in the 1880s as a privately owned one, though legislation providing for its existence also made possible the option of municipal acquisition. In 1946 the industry was nationalised after a controversial debate culminating in a Royal Commission, ending after one Liberal member of the Upper House was persuaded by Liberal Premier Tom Playford to change his vote and support the bill to nationalise the industry. In an equally controversial debate forty-three years later, the Liberal Government of John Olsen privatised the industry after two Labor Party Upper House members broke ranks and voted for the Bill. In each case the political and economic circumstances of the time, as well as key individuals appeared to play decisive roles in shaping the outcome.

Close historical examination of the circumstances surrounding the nationalisation of the electricity industry in South Australia can shed light on the complex interaction of ideas and political conditions in determining control and ownership of the electricity industry in South Australia. Whereas the development of public enterprises both internationally and in Australia took place gradually over many decades, the wave of privatisations that culminated in the privatisation of ETSA in 1998 occurred over just one decade in South Australia.

It is nearly a decade since ETSA was privatised. Since this time no further electricity industry privatisations have taken place in Australia. The passing of time enables valuable

[9] The Liberal Party experienced a swing of 9.5 percent against it at the 1997 State election. As a result it secured only 23 seats in the House of Assembly compared to 21 for the Australian Labor Party. The Liberal Governments majority in the State Parliament was reduced to five seats.

[10] HomeStart provides finance to assist with the purchase of homes. The Ports Corporation owned and managed South Australian port facilities. WorkCover levies occupational insurance on employers in South Australia.

reflection on the factors that contributed to the privatisation in the context of a wider debate on the changing role of the state in the electricity industry.

Through an examination of the forces shaping the development of public enterprise and the public electricity industry in South Australia this thesis investigates why ETSA was privatised. In order to do so, it examines the significance of historical context and local political and economic conditions. While prevailing ideas and economic conditions help to explain nationalisation and privatisation, an understanding of the influence of institutions and individuals helps to avoid deterministic and economistic explanations. The thesis seeks to identify the complex interplay of ideas and power that surrounded nationalisation and privatisation. In particular it investigates the confluence of factors that led to the privatisation of ETSA by examining the role that political and economic conditions and agency played. In this context the thesis postulates that while the privatisation of ETSA was a likely outcome, it was by no means inevitable.

My own interest in this topic emerged during the mid 1990s when I engaged in the debate surrounding the privatisation of the Electricity Trust in South Australia as a researcher. While I gained unique insights into the factors influencing the privatisation of ETSA, the events that unfolded left many questions unanswered. In particular, while the ideological climate that prevailed during that time was favourable to privatisation, local opposition to the privatisation of ETSA made the achievement of this objective very difficult for the State Government. The principal barrier was the fact that the State Government initially lacked the numbers it needed to pass the legislation that it required to privatise ETSA. As events unfolded during 1998, circumstances changed, enabling the Liberal Government to secure passage of its legislation. During this time it appeared that while prevailing neo-liberal ideas during a period of conservative political ascendancy were influential factors, events at the local level were also important in determining the privatisation of ETSA.

Examining the economic case for and against privatisation was the focus of much of my professional research during the late 1990s. The focus of my research at that time was predominantly upon the narrow economic and fiscal arguments surrounding privatisation, though I also became interested in the reasons why the electricity industry was nationalised

in 1946.[11] Throughout the ETSA privatisation debate I maintained a detailed record of key events and followed the debate closely. I prepared a number of reports on the economic and fiscal implications of privatisation with economist John Quiggin. These were widely cited in South Australia's daily paper, *The Advertiser*.[12]

While my first hand experience as an actor in the ETSA privatisation debate has proved to be invaluable in the preparation of this thesis, my research places these earlier reflections on the privatisation of ETSA in a wider historical and political context. It seeks to provide insights into the complex interaction of power, ideas, agents and circumstances that surrounded and shaped nationalisation and privatisation of the electricity industry in South Australia. While the ideological and political climates in which these two outcomes occurred were conducive to nationalisation and privatisation this thesis examines factors that might give rise to uncertainty about the outcome, including the role that particular institutions and agents play. Mainstream economic arguments surrounding privatisation tend to overlook this uncertainty. This thesis seeks to address this gap in knowledge through an historical and relational analysis of nationalisation and privatisation of the electricity industry in South Australia. A multi-dimensional conceptual approach has been adopted to achieve this objective.

Much of the contemporary literature on privatisation tends to be one dimensional, focusing on the relative financial performance, productivity and efficiency of public and private sector enterprises (Yarrow 1993, Jackson and Price, 1994, Centre for Co-operation with the European Economies in Transition 1993, Ramanadham 1993, Centre for Co-operation with the Economies in Transition 1997, Kuttner 1999). This body of work seeks to apply competing economic theories to advance largely technical cases in favour or against privatisation. The debate is confined largely to neo-liberal perspectives on the role of the State in the economy. Another group of researchers investigate the interaction of historical, political and economic factors in order to develop a political economy of privatisation (Wolfe 1996, Feigenbaum et al 1998, Fine, 1999, Whitfield 2001, Fairbrother, Paddon and Teicher 2002, Cohen 2002, Beder 2003, Cahill and Beder 2005, Victor and Hellor 2007). This thesis builds on the latter body of research by seeking to situate the privatisation of ETSA in 1998 in an historical and political context. In particular the thesis investigates the

[11] For example see Quiggin and Spoehr 1998, Spoehr 2004a, Spoehr 2004b, Spoehr 2004c and Spoehr 2004d.
[12] For example see June 2, 1998:19, June 21, 1998, July 7, 1998:9, August 18, 1998:6, August 25, 1998:17.

forces driving the development of public enterprise and the nationalisation of the electricity industry in South Australia. In this context privatisation is contingent on local political and historical factors and conditions as well as prevailing global economic ideas and forces.

Following Feigenbaum et al's approach to the study of privatisation (1998:149) this thesis examines the proposition that privatisation might be best viewed as a political battleground '… where outcomes remain uncertain, where victories and losses may depend on local terrain, and where ideas play an important role but not an independent one'. In this context it is not sufficient to focus attention on the relative efficiency or effectiveness of public and private ownership and delivery to help explain privatisation. Equally, we risk overly deterministic explanations for privatisation if we see them simply as the product of global economic forces and conditions. A more holistic approach to the study of privatisation is warranted to avoid functionalist or deterministic explanations of privatisation. We might best view nationalisation and privatisation as '… the direct result of combinations of both ideological and pragmatic contingencies within a fluctuating political and ideological environment of history…' (Wettenhall cited in Hodge 2000:44).

1.2 The Public Private Debate in South Australia

South Australian economic history is characterised by an ongoing debate about the role of public enterprise. Understanding this contest of ideas and power is important in seeking to make sense of changes to the ownership and control of the electricity industry in South Australia. While there has often been strong opposition to the establishment of public enterprises in South Australia, rarely has it been abandoned as a policy tool, to the extent that it was at the end of the 20th Century.

At the national level the dominant tendency historically has been for the state to play an integral role in social and economic development (Rich 1965:5). This was particularly the case during periods of economic downturn in Australia when the private sector has been '… heavily dependent on public action' as Butlin, Barnard and Pincus (1982:18) note. In the South Australian context Sheridan (1986:1) argues that there have been:

> … few areas of South Australian social, economic and cultural life, left untouched by the influence of government since colonial settlement in the early 1800s. The world has seen scarcely any periods when individuals involved in economic activities could perform freely and independently without any government protection or interference.

As we shall see, state intervention and public investment have characterised both Liberal and Labor governments. Historically both have used public sector investment as a vehicle for building much of South Australia's physical and social infrastructure. From the 1850s onwards government began investing heavily in infrastructure such as roads, communications, ports, housing, electricity, water and sewerage. These public investments provided direct and indirect assistance for the development of new industries. The development of local industry has remained a priority for government, never leaving industrial development to the market alone. Government introduced tariffs on imported manufactured goods to protect infant industries against overseas competition and it restricted immigration to protect local employment. Under pressure from unions and the unemployed, governments introduced a range of progressive industrial and social legislation. Government came to be the major provider of education, health and community services.

While socialists outside of the South Australian Parliament may have seen public enterprise as a means to a socialist end, radical liberals[13] and Labor MPs often had more pragmatic motivations. They avoided socialist arguments in an effort to neutralise opposition in the Upper House of the State Parliament as conservatives dominated that Chamber for most of 20th century (Jaensch 1986:226-269). The development of state enterprise was strongly opposed by many conservatives because they regarded public enterprise as unwelcome 'socialist' encroachment on private enterprise. This view did not accord well with reality. By the early 1900s state enterprise development had become a prominent feature of both Liberal and Labor government economic programs. Conservatives' fears about state enterprises being the thin end of the wedge of socialism rang hollow as Labor MP J.P Wilson reminded conservatives in State Parliament in 1911.

[13] Radical liberalism in South Australia is seen to be most associated with Charles Cameron Kingston who was Premier of South Australia during the 1893-1899 period. Radical liberals advocated state intervention stemming from a positive conception of liberty that accepted that the state had a key role to play to encourage and protect liberty. See Campbell (1970) for a detailed examination of the Kingston and radical liberalism in Australia.

> Members oppose the brick and timber-yards proposals on the grounds that they were the thin end of the wedge of socialism. If that were so the same thin edge had been a noticeable feature in connection with many public works years ago. It was late in the day to speak of the thin end of the wedge of socialism. There were State butter factories, canning works, high schools, railways, tramways, dairies, farms, .ironworks...
>
> (J.P Wilson cited in Stockley D 1967: 14)

Early conservative opposition was rarely significant enough to prevent the development of public enterprises. More pragmatic views held sway in the early history of the state (Stockley, D, 1967: 15). The prevailing view was that of the 'radical liberals' who approached the question of state enterprise pragmatically in the South Australian parliament as the economic historian Stockley (1967: 15) argues:

> The Liberals – except for the 'hard core' who refused to compromise with socialism at any stage – had a comfortingly ambivalent attitude which enabled them to implement or support pragmatic socialistic legislation in certain cases, while still angrily decrying anything faintly resembling socialism as bad by definition. The trick was to claim that you were really advocating down to earth common-sense for the good of society …

Public enterprise in this view was an effective tool of state development. It had the potential to stimulate economic and industrial development recognising that the private sector was often unable or unwilling to invest in large infrastructure projects, particularly those designed to meet longer term development objectives or those where the direct financial benefits from investment were uncertain or unattractive.

1.3 Structure of the thesis

This thesis investigates the complex interplay of ideas and power that surrounded nationalisation and in particular the privatisation of the electricity industry in South Australia. It does so through an examination of the role that political and economic conditions and agency play. The thesis asks whether the privatisation of ETSA was a likely, but uncertain outcome of the interaction between these factors.

The thesis comprises seven chapters including this introduction. The relational approach applied in this thesis relies on the use of an historical narrative which seeks to place events and outcomes in a political as well and economic context.

Chapter 2 outlines the broad conceptual approach that has been adopted to investigate the nationalisation and privatisation of the electricity industry in South Australia. A brief definitional discussion of privatisation highlights the contested nature of privatisation as a concept. This provides a foundation for an examination of competing perspectives on public enterprise including the contribution of neo-liberal economic ideas and public choice theory in particular. A range of perspectives on the motivations and forces driving privatisation are examined. An analysis of the utility of these perspectives in helping to explain changes in the control and ownership of the electricity industry in South Australia is undertaken to develop an analytical foundation for the case study. The chapter outlines a relational approach for examining the forces shaping privatisation debates and outcomes. Finally, the methods utilised to gather and analyse data are explained.

Chapter 3 examines the role that wider political and economic conditions, prevailing ideas, political power and individual agency played in shaping the development of public enterprise in South Australia. By situating an analysis of the nationalisation and privatisation of the electricity industry in South Australia in this context we are better able to understand how changing political, economic and social conditions have shaped the role of the state and informed the development of public enterprise over time. We can also observe the influence of particular institutions and individuals. Insights into

these complex dynamics will help to understand the forces shaping the nationalisation of the industry.

Chapter 4 focuses specifically on the forces shaping the nationalisation of ETSA. The conceptual prism offered by a relational approach is used to reveal complex interactions between structure and agency in order to enrich our understanding of the factors that led to the development of a public electricity industry in South Australia. This provides an analytical and historical foundation for an investigation of the forces that shaped the privatisation of ETSA.

Chapter 5 examines the influence of prevailing ideas, economic and political conditions on the privatisation of ETSA. To fully understand why ETSA was privatised we need to examine the political and economic drivers of the international retreat from public enterprise that took hold in Australia in the late 1980s. It is necessary to investigate how changing international and local economic conditions interacted with key events and agents to contribute to the resurgence of economic liberalism. A multi-faceted and relational approach enables us to understand why the privatisation of ETSA was a likely outcome in the mid 1990s. The chapter examines the increasing influence of neo-liberal economic ideas and conservative political parties in the Australian context and the impact that this had on the role of the state in South Australia. The chapter also investigates the political and economic shifts that generated momentum for privatisation in South Australia during the 1990s. In this context the collapse of the government owned State Bank of South Australia was a turning point in South Australian political and economic history.

Chapter 6 examines the events that led to the State Governments privatisation decision and its stated rationale for privatisation. It investigates the proposition that the privatisation of ETSA was the outcome of a political struggle for control of South Australia's electricity industry. By examining the contest of ideas and power and the actions of agents surrounding privatisation debates we are likely to be better able to appreciate this uncertainty. The range of arguments that emerged in response to the Government's decision to pursue privatisation is investigated and the roles and influence of key actors in the debate examined. Finally the chapter reflects on the significance of agency in determining the course of the ETSA privatisation debate.

Finally, Chapter 7 examines the utility of an historical and relational approach in helping to explain why ETSA was privatised. It reflects on the contribution that such an approach can make to explain why privatisation takes place in some contexts and not in others. The chapter concludes that it is necessary to adopt a relational approach to investigating privatisation in order to reveal the complex interactions that take place between structure and agency in determining whether privatisation prevails or is resisted in particular contexts.

Chapter 2

CONCEPTS AND APPROACH

2.1 Introduction

This chapter outlines a conceptual approach for the investigation of the nationalisation and privatisation of the electricity industry in South Australia. A brief definitional discussion of privatisation highlights the contested nature of privatisation as a concept. This provides a foundation for an examination of competing perspectives on public enterprise including the contribution of neo-liberal economic ideas and public choice theory in particular. A range of critical perspectives on privatisation are also examined. An analysis of the utility of these perspectives in helping to explain changes in the control of the electricity industry in South Australia is undertaken to provide an analytical foundation for the case study. The contribution that historical, political and economic analysis provides to generating a relational understanding of privatisation is highlighted. Finally, the chapter outlines the approach and methods utilised.

2.2 Defining privatisation

The rise of privatisation as a term in popular usage can be linked to the 1980s neo-liberal economic ascendancy culminating in the election of the Thatcher Government which embarked on a large scale asset sales program.[1] At that time the term was commonly understood to mean the sale of public assets yet early advocates of privatisation like Madsen Pirie, an advisor to Margaret Thatcher, saw privatisation in much broader terms. For Pirie, privatisation involved a range of techniques for extending the influence of the private sector (Chin et al 1987:28). These include:

[1] Wright and Thompson (1994:35) suggest that there were over 300 cases of asset privatisation in Britain during the 1980s.

1. Transfer of ownership - involving the sale of assets
2. Liberalisation – involving the introduction of competition
3. Contracting out or tendering – involving competitive tendering for public sector work
4. Vouchers – involving public subsidies for services delivered largely by the private sector.

Privatisation takes on broader meaning in this context, involving the use of market mechanisms, private sector institutions and individuals for the delivery and financing of a wide range of services and functions. Combining Pirie's outline of techniques of privatisation Hodge (2000:15) develops a typology of privatisation methods comprising five elements. These include:

1. Denationalisation – the sale of formerly nationalised state owned enterprises.
2. Load shedding – the shedding of specific functions undertaken by the public sector.
3. Privatisation of production – the use of market mechanisms such as contracting out for the delivery of services once provided by the state.
4. Deregulation/liberalisation – the promotion of competition.
5. Privatisation of finance – the introduction of user pays and voluntarism.

These elements can be translated into specific forms of privatisation as the following table detailing forms of privatisation illustrates (Hodge 2000:15). In this context privatisation can be many things including selling or giving away public assets, contracting out of public services or privately financing and operating public infrastructure.

Table 2.1: Forms of Privatisation

Group	Activities
Denationalisation	Selling the whole enterprise (i.e. divestment) Selling complete parts of the enterprise Selling a proportion of the enterprise Selling to the workforce Giving to the public Giving to the workforce Liquidation
Load shedding	Encouraging exit from state provision Encouraging alternative institutions
Privatisation of production	Contracting to the private sector Franchising Payment of grants to private suppliers Distribution of vouchers to private consumers Diluting the public sector Subsidise private sector arrangements that undermine public sector provision
Deregulation/ liberalisation	Right to private substitution/competition Curbing state powers Repealing monopolies Encouraging small-scale trials Buying out existing interest groups Deregulation via voluntary associations
Privatisation of finance	Charging for previously non-priced goods and services (i.e. user pays) Voluntary provision of services Private financing of public infrastructure through public/private partnerships

Sources: Hodge 2000:15

Described in this way privatisation represents a wide range of techniques for the pursuit of market oriented objectives that assume a producer/consumer relationship as the primary basis for human interaction. The principles underlying this approach include:

- A preference for private ownership and management rather than public;
- Antipathy for the welfare state and emphasis on individual rather than collective responsibility;
- An attempt to reduce the role of government by expanding the role of the private sector within society. This does not imply a reduction in the size of the public sector but rather a reduction in the scope of public sector activity such as public enterprises.

As we shall see in later chapters, privatisation is not simply a technical concept for describing techniques like asset sales or contracting out, but rather it is a more complex political and economic concept that is bound up in a wider debate about the role of the state in society. The role of the state at a particular point in time is mediated by the political and economic conditions and ideas that prevail as well as historical context. It is also subject to the influence of institutions and agents with divergent views about the role of the state. This thesis examines how these factors contribute to outcomes like the privatisation of ETSA.

The privatisation debate can be constrained by an ideological bifurcation between the public and the private sectors that is rarely evident in the real world. A dichotomy between the two sectors masks the interdependencies that exist between them. For example a pre-occupation with the relative efficiency of private or public management and ownership tends to obscure the complex interrelationships that exist between the public and the private realms in a mixed economy (Stretton and Orchard 1993:81-122). The public and private sectors are intertwined in complex ways as Feigenbaum et al suggest.

> We typically talk about the public and private "spheres" or "arenas" as if they are distinct, bounded and mutually exclusive. The public sphere is presumed to be the realm of the state and collective institutions: the private arena concerns firms, individuals and personal responsibility. In reality, though, the relationship between the public and the private is much more complex than this: "the modern institutions of social protection are neither public nor private in any unambiguous meanings of those terms".
>
> (Feigenbaum et al 1998:9).

We can observe this ambiguity in a multitude of ways. Rather than use their own personnel, public utilities commonly make use of private contractors to construct new infrastructure projects. Restaurants are regulated by public health standards. Private cars drive on public roads and over public bridges. Private companies are subject to a myriad of corporate laws and regulations and receive public assistance in the form of tax relief, direct assistance and tariff protection. Government might largely finance a service but also levy a fee on users like the Medicare levy[2] in Australia. Services are often delivered by a combination of public and private organisations like the public transport system in South

[2] The Medicare Levy is a levy on Australian taxpayers to assist with funding of the Australian public health system.

Australia. Most publicly funded infrastructure is constructed by private contractors. Responsibility for the safe or effective operation of services can be regulated by laws to protect the individual while the individual might also be liable for their actions under specific circumstances. Decision making might be increasingly informed by the advice of consultants but still remain the responsibility of public servants.

A more nuanced understanding of nationalisation and privatisation is likely to be gained from an acknowledgement of the complex linkages that exist between the public and the private sectors. In short, privatisation is not simply the re-placement of public sector activity by private sector activity. The application of market principles and mechanisms in the public sector will change the public/private mix but rarely will it lead to the displacement of one sector by the other. Privatisation might be understood to operate within a public/private continuum where the private cannot entirely be separated from the public. This is the essence of a mixed economy under capitalism. The following table adapted from Feigenbaum et al helps to illustrate this dynamic across four key dimensions - financial, delivery, responsibility and decision making.

Table 2.2: The Public/Private Mix and Privatisation

Public	Dimension	Private	Illustration of privatisation
Government finances through general revenues.	Financing dimension ⇔	Individuals pay for service at true cost.	User fees for toll road
Service is delivered by public employees.	Delivery dimension ⇔	Service is delivered by private firms.	Government contract with private firm to maintain water and waste water systems.
Laws and norms hold government responsible for conditions.	Responsibility dimension ⇔	Individuals are expected to bear responsibility for their own actions, bad luck and consequences imposed by others.	Introduction of self-regulation for health and safety standards.
Decisions affecting the public are made collectively through formal and recognized procedures and institutions.	Decision making dimension ⇔	Decisions affecting the public are made privately by individuals and firms based on their assessed self-interest.	Public servant policy making replaced by consultants.

Source: Adapted from Feigenbaum et al 1998:10

Privatisation broadly conceived involves a shift from public management, collective responsibility and ownership to private management, responsibility and ownership. Nationalisation might be viewed as the mirror image of privatisation. Such shifts are normally always characterized by continuing public/private ambiguity in mixed economies like Australia. Just as they do prior to privatisation the public and private domains inevitably intertwine in complex ways post privatisation. For example a public service might be leased to the private sector to manage, but continue to be funded by the public

sector. To help understand this we might conceive of policy choices having public and private dimensions as the following matrix adapted from Donahue (1989:7) illustrates.

	Collective Payment	Individual Payment
Public Sector Delivery	1	3
Private Sector Delivery	2	4

In this matrix choices have a payment and a delivery dimension which determine the public/private mix. Quadrant 1 involves collective payment and public delivery of services while Quadrant 2 involves collective payment and private sector delivery. Quadrant 3 involves individual payment and public sector delivery while Quadrant 4 involves individual payment and private sector delivery. Situating a public service or enterprise within this matrix is not a straightforward task. For example electricity prior to the privatisation of ETSA was delivered by the public sector and funded from individual payments with cross-subsidies occurring between metropolitan and rural users. Some public bus routes in South Australia are currently delivered by the private sector while others are delivered by the public sector. Both are funded from individual payments. A large public housing stock remains in South Australia. This is funded collectively and from subsidized rents paid by individuals.

In short we can find a multitude of variations across the public/private continuum in the real world. These are likely to be mediated by changing conditions, prevailing ideas, local circumstances and the actions of institutions and individuals. Analysing which of these factors are most likely to be at play in shaping outcomes like the privatisation of ETSA requires an examination of the ideological debate that surrounds nationalisation and privatisation. It also requires arriving at a conclusion about an appropriate conceptual approach for investigating the factors that shape nationalisation and privatisation. These are the focus of the following sections.

2.3 Competing Perspectives on Public/Private Ownership and Control

This section provides a brief overview of competing political and ideological perspectives on public/private ownership prior to outlining a conceptual approach for examining nationalisation and privatisation of the electricity industry in South Australia.

Neo-liberal economic perspectives provide the ideological foundations for privatisation while socialist and social democratic perspectives offer legitimacy for nationalisation. Neo-liberalism is the bedrock upon which contemporary arguments for privatisation are constructed.[3] From within the neo-liberal economic tradition, public choice theory emerged to provide the most explicit political rationale for privatisation. Moreover, technical arguments within neo-liberal economic theory seek to demonstrate that private enterprises are more efficient and productive than public sector enterprises.

Social democratic thinkers have sought to argue that public enterprise is an essential feature of the welfare state, recognising that public enterprises play a key role in addressing market failure and an important re-distributive role, ensuring access to essential services regardless of income as well as serving as a catalyst for social and economic development. Services that are deemed to be essential like electricity, health, education and water should remain publicly owned and managed. Social democratic perspectives are also likely to view public provision as a means to redress inequities in the distribution of income and wealth within a society. Finally it is seen as politically desirable for strategic assets and services to be subject to democratic control and influence as this will ensure that they serve collective rather than private interests.

[3] Neo-liberalism is defined by Stillwell (2002:390) as an '… ideology that seeks to justify the restructuring of the economy to increase opportunities for private profit, often couched in the language of 'market freedoms' and 'individual choice''. According to MacEwan (1998:31) the "essence of neo-liberalism" is the '… proposition that economic growth will be most rapid when the movement of goods, services and capital is unimpeded by government'. For a discussion of the origins and characteristics of neo-liberalism see Stillwell (2002:147-156) and Stretton (1999:80-84).

The socialisation of industry, production and exchange has been a central objective of socialist thought[4]. Socialists have differed greatly however on the nature and extent to which this objective should be pursued in the face of a resilient capitalism. Privatisation is the antithesis of the socialist project. It represents a transfer of wealth and power to a privileged and dominant minority capitalist class. It subjects communities to the logic of capitalist accumulation which privileges major shareholders over communities. It removes and distances elected governments from responsibility for ensuring that a wider public good prevails over private interests.

The following sections unpack these perspectives in more detail. We begin with the ideas that have inspired and provided legitimacy for privatisation.

Privatisation, Neo-Liberalism and Public Choice Theory

The ideological case for privatisation was provided by a prominent group of neo-liberal economists including Hayek (1978), Friedman (1962) and Buchanan (1975). They argued that the market and the 'price mechanism' rather than government is the most efficient means of allocating goods and services in an economy.[5] In their view the 'public interest' is best met through the free interplay of competing private producers and consumers operating competitively in the market place. Government intervention in the economy only distorts the efficient operation of the market by sending the 'wrong' price signals to producers and consumers.

Friedman and Hayek argued that privatisation is an historical trend - an inevitable triumph of private ownership over public ownership. Where 'natural' government monopolies existed and the prospects of profitability appeared low, the private sector would ultimately, through the assistance of 'technological and social progress', be the best site for the delivery of the service. Should the creation of a private monopoly from this process be the result, this would be more desirable than maintaining a public sector monopoly or regulation (Marginson 1992:63).

[4] See O'Meagher (1983:1-31) and Johnson (1989:14-150) for a discussion of the socialist objective in the context of Australian labor politics.

[5] For a detailed examination of the ideas of Hayek, Friedman and Buchanan see Marginson (1992).

From within the neo-liberal economic tradition, public choice theory provided a political strategy for pursuing privatisation in practice.[6] This strategy was articulated by Madsen Pirie who was also as advisor to Thatcher. Reflecting on the success of the Thatcher Governments privatisation program, Madsen Pirie colourfully proclaimed that, 'Taken together the privatisation programme in Britain probably marked the largest transfer of power and property since the dissolution of the monasteries under Henry VIII' (cited in Wolfe 1996:7). For Pirie, privatisation is a means of transforming the role of the State by systematically transferring responsibility for the provision of goods and services to the private sector. Privatisation according to Pirie (1985:3), '… controls the public sector by gradually replacing it … it offers a 'reverse ratchet', a means of systematically reducing the public, government-directed part of the economy'. The need for privatisation stems from a belief '… that the regulation that the market imposes on economic activity is superior to any regulation which men can devise and operate by law' and a claim that an activity '… performed in the private economy can be done more efficiently, more cheaply, and with greater satisfaction to its beneficiaries than its counterpart can achieve in the public sector' (ibid).

Public choice theories as Self (1993:56) has noted:

> … have been fused with market theories and converted into a powerful new ideology which has become politically dominant over the last two decades. This new ideology has overthrown or undercut the previous dominant ideology described as the Keynesian welfare state.

Neo-liberalism and public choice theory gained political currency and momentum in the wake of the British Conservative Parties landslide 45-seat majority victory in 1979. The new British Prime Minister Margaret Thatcher became a champion of neo-liberal ideas, surrounding her government with some influential architects of neo-liberalism. She was joined in her enthusiastic praise for neo-liberalism by US President Ronald Reagan (Spulber 1997:74).

Pirie used public choice theory to outline a strategy for reducing the size of the public sector by successively buying off opposing interests where necessary, and by creating new

[6] Public Choice Theory has been called '…the economics of politics' according to Marginson (1992:45). He states that 'It extends the tools of economic analysis to politics and political analysis', giving rise to notions of a political marketplace where self-serving individualism is the overriding motivation for human behaviour.

interests that would be supportive' of privatisation (Self 1993:77). This translated into methods such as encouraging individualism through worker share-ownership schemes.

Public choice theory is built upon the assumption that all human behaviour can be understood as the action of individuals maximising economic self-interest. Human beings, according to the theory, are *homo economicus* - that is they are focused on the pursuit of individual material gain. This view is expressed clearly by Public Choice Theorists, Buchanan and Tullcoch (1965:322) who describe their approach as '... essentially economic, in that political decision making is viewed, in the limit, as analogous to the determination of the terms of trade in an exchange'.

Notions of a collective interest or action toward a common good are rejected by Public Choice Theorists in favour of a one-dimensional and naturalistic view of human behaviour as Stretton and Orchard (1994:20) explain:

> Considering the length and depth of the intellectual tradition which sees human purposes as complex, variously selfish and unselfish, and changeable, public choice theorists may be seen as attempting an unusual shift, an opposite shift to those achieved by most reformers. They want to take a phenomenon long perceived as wilful and changeable and remove it to the realm of the natural and unchangeable: to persuade people that material greed is, and will inescapably remain, the single, natural, dominant motive of their political, economic and social behaviour.

This approach has the effect of undermining the legitimacy of government and the public sector by defining the basis of human motivation as self serving material individualism. Given this basis of motivation, collective action or intervention by government or the public sector cannot by definition, result in any public good. Public sector managers tend to maximise the size of their departmental budgets in the pursuit of self interest rather than the pursuit of a wider public good. On the other hand private sector managers are seen to be subject to a range of competitive pressures that will maximise efficiency and contain costs to consumers.

Public choice theorists like Madsen Pirie argue that privatisation depoliticises public enterprises by removing the ability of politicians and parliaments to use public enterprises to achieve wider social and economic objectives. This might include using the revenue stream generated by an electricity enterprise to fund budgetary allocations as was the case

in South Australia for many years. By depoliticising public enterprises Pirie asserts that (Pirie 1995:23) '… people … see themselves (correctly) as consumers of services by these firms rather than as participants in them through the democratic process'. That public enterprises respond to the wishes of elected governments is a central problem that privatisation is seen to remedy. It is also seen by Pirie '… to introduce competition and choice, to create successful industries for the national economy, and to spread wider share ownership and employee share ownership. Not the least among the aims is a desire on the part of government to achieve perceived success and to be more popular and more electable in consequence of this' (ibid: 24).

Public choice theory leads to the conclusion that the public interest is best served by individuals pursuing their private interests as consumers rather than through collective ownership and control of public enterprises. Collective activity threatens the smooth operation of markets. In particular actions taken by unions and governments to regulate labour and other markets are regarded as market distortions. Unions and other 'interest' groups represent coercive elements which frustrate individual freedom of choice and distort 'ideal' market outcomes. Public choice theory provides justification for governments to curb their actions in an effort to remove market distortions. The political purpose of this is to demobilise and fracture collective interests by introducing policies which reward individualism and self interest while undermining collectivism.

While some proponents of privatisation are motivated by political considerations others seek to demonstrate, using neo-classical economic theory, that public enterprise and public provision of services is inherently inefficient (Yarrow 1993, Jackson and Price, 1994, Centre for Co-operation with the European Economies in Transition 1993, Centre for Co-operation with the Economies in Transition 1997, Ramanadham 1993).[7] This body of literature argues that market based mechanisms are superior to public sector administrative mechanisms in maximising the efficient use and distribution of resources. A market based approach involving competing producers will maximise efficiency by subjecting producers to a range of competitive pressures including shareholder demands for increased dividends. Market based approaches are seen to provide a range of efficiency incentives that are not

[7] See Quiggin (1996:35-64) for a technical discussion of efficiency debates in the Australian context.

present under public ownership and management arrangements (Jackson and Price 1994:7-9).

The theoretical foundations for these claims can, to a significant extent, be found in welfare economics.[8] The key assumptions underlying welfare economics, according to Quiggin (1996:36-27) are the ideas that outcomes matter but processes are not important, individuals rather than communities are the focus of concern and that welfare is determined by the consumption of goods and services. Complex mathematical equations have been developed by welfare economists to apply these assumptions to an examination of the relative efficiency of public and private sector enterprises operating in differing regulatory environments. A technical approach is adopted to maximise financial outcomes and individual utility. As we shall see in the following sections, this view obscures wider political and economic considerations in determining the likely impact of privatisation on the welfare of the community.

Privatisation, class and power

Critical perspectives on privatisation variously acknowledge the role that class and power relations play in shaping the role of the state in capitalist societies under different economic and political conditions. They universally acknowledge as Pitelis and Clarke (1993:6) argue, that '… the drive for privatisation is more complex, and more political than pure market versus planning considerations might suggest'.

Socialist and social democratic perspectives often assert an exclusive or major role for the state in the production and distribution of goods and services and reject privatisation as privileging capital and undermining collectivist goals. The historical potency of socialist ideas and the consequent rise to power of Communist regimes throughout Eastern Europe in the early 20th century fuelled widespread nationalisation of private enterprise and the growth of public enterprise as chapter 4 reveals. The influence of socialist ideas went well beyond the boundaries of Communist countries and was reflected in various ways in the programs of social democratic parties in the western world.[9] Social democratic governments shared the view that the state must play a central role in the economy,

[8] For a detailed discussion of efficiency in the context of welfare economics see Quiggin (1995:37-50).
[9] For a discussion of the influence of socialist ideas on the Australian Labor Party see O'Meagher (1983:1-31).

particularly to redress chronic unemployment, hardship and inequality that plagued capitalist economies in the wake of the Great Depression of the 1930s.

Socialist critiques of privatisation focus on how privatisation transforms power relations and undermines democratic objectives. Wolfe (1996: 171) argues that privatisation recasts '… the nature of democracy by changing its operative forms of power relations'. He suggests that a privatised democracy has been created where government officials reshape the role of the state, '… retaining formal power of authorization, supervision, and coercion' while also exercising '… indirect control through market-led policy-making processes'. Conservative governments find this attractive as it enables them to reinforce and extend their political power base. Corporate supporters benefit from access to new avenues for capital accumulation. A public share offer can create a new shareholding population – one that can see its interests coinciding with the success of the privatised firm. In this way privatisation helps to create a political culture sympathetic to neo-liberal values (Hall 1986: 128).

Gamble argues that privatisation represents a key strategy for '… reducing the range of decisions subject to the political process' (cited in Wolfe 1996:15). The objective is to reduce the influence of social democracy and establish private interest's rather then collective interests as the pre-eminent political force within the capitalist economy. This resonates to some extent with Jessop's (1994) notion of the hollowing out of the state, a key element of regulation theory.[10]

Regulation theory situates privatisation in the context of the collapse of the Keynesian welfare state (KWS) and the emergence of a Schumpetarian workfare state (SWS)[11]. Privatisation can be seen as a means for addressing crisis tendencies within the Fordist mode of regulation. In particular it creates new opportunities for capital accumulation through the transfer of profitable enterprises from the public to the private sector.

The widespread privatisations that took place in Australia during the 1980s and 1990s might also be viewed as the re-emergence of laissez faire economic policy rather than the

[10] Regulation theory according to Broomhill (2004:133-134) is an analytical approach for explaining capitalist development and change that '… emphasises the dialectical nature of the relationship between capitalism's social, political and cultural context'. Applications of regulation theory to specific cases of privatisation are limited. See Patterson and Pinch 1995 and Barnett 1999 for an examination of the implications of a regulation theory approach to understanding privatisation.

[11] The SWS broadly implies a shift from a welfarist to a workfarist mode of reproduction and production, privileging innovation and international competitiveness over full employment, redistribution of wealth and income (Jessop 2003:6).

shift towards a Schumpeterian Workfare State as some Regulation Theorists suggest. For example, Quiggin (1996:40-41) argues that:

> In large measure the economic policy program of the past twenty years has been to dismantle the policies introduced in the previous thirty years, and to restore the situation prevailing fifty or even a hundred years ago when the guiding principle of economic policy was laissez faire.

This phenomenon represents an important insight into the development of economic policy over the last hundred years. There appears to be little interest, as Quiggin (1999:40) notes, '… in finding out why laissez faire policies were felt to be unsatisfactory in the past', or examining '… the strengths and weaknesses of the interventionist policies that replaced them'. Rather than a break with the past, privatisation in this view represents the reassertion of laissez faire economic principles. Through an historical lens the emergence of public enterprise might be seen as a response to the failure of laissez faire. Both advocates and critics of privatisation tend to overlook this possibility.

The stability and resilience of neo-liberal economic policies is the subject of considerable speculation among Regulation Theorists (Peck and Tickell 1995:377-381). Rather than resolve crisis tendencies within Fordism[12], privatisation and other neo-liberal economic policies may or may not result in political and economic instability that undermines the legitimacy of neo-liberalism. For so long as the question remains open, Regulation Theorists avoid the economic determinism that has undermined earlier socialist thought.

Regulation Theory provides insights into how global and local political and economic conditions interact with neo-liberal economic ideas to generate momentum for privatisation.[13] Privatisation can be viewed as the displacement of power from the state to other centres of influence at the global, regional or local level. According to Jessop (1994:24):

[12] Fordism implies an economic system characterised by mass production of consumer goods typically involving assembly line techniques. Other characteristics of the system include the use of Keynesian demand management policies, the separation of ownership and control in large corporations, union recognition and state involvement in managing conflicts between capital and labour.
[13] See for example Patterson and Pinch (1995), Peck and Tickell (1994) and Geddes (1994).

> … the power of nation states are being limited through a complex displacement of powers upward, downward and outward. Some state capacities are transferred to an increasing number of pan-regional, pluri-national, or international bodies with a widening range of powers; others are devolved to restructured local or regional levels of governance within the nation state; and yet others are being usurped by emerging networks of power – local and regional...

Hollowing out of the state is seen as a process '… that aims to overcome crisis tendencies in Fordist accumulation regimes by relocating responsibility for accumulation to other levels of organisation deemed to be able to cope more effectively with the symptoms of Fordist crises' (Barnett 1999:261).

The notion of the hollowing out of the state does not, however, imply a retreat from state intervention. It suggests a different form of intervention that transfers economic and political responsibility to other centres of power or capitals. This point is well made by Fine (1999:43) who argues:

> … that what is privatised and how, represents the state's continuing intervention in the economy, favouring certain capitals at the expense of others and mediating between capital and labour in economic, political and ideological arenas.

In this context Parker (1998:40) suggests that privatisation might be viewed as '… a shift in economic power' and a '… redistribution of income to favoured groups'. While capital can be seen to be the major beneficiaries or privatisation it might also be argued that capital can be a major beneficiary of public enterprise. O'Connor suggests that '… the purpose and effect of state enterprise is to underwrite private profit' by '… accelerating capital accumulation in the monopoly sector' (1973:179). In other words the public/private mix at a particular point in time is largely designed to maximise capital accumulation. In the early stages of development of the capitalist state the primary means for promoting more rapid capital accumulation was state funded infrastructure. In the latter stages of industrialisation, the privatisation of state infrastructure is viewed as a strategy for promoting capital accumulation. The changing role of the state might also be viewed in the context of the boom/bust cycle and the demands of capital upon government in response to this (Broomhill 2001:115-137).

Regulation Theorists recognise that while nation-states are more constrained by the neo-liberal institutions that influence them, nation states remain politically significant. While regulation theory focuses attention on the forces that generate global political momentum for privatisation, it sheds much less light on the significance and influence of local political and economic forces in determining whether or not privatisation takes place. Attempts to reconcile the relative influence of global and local factors permeate the considerable debate that surrounds the pervasive notion that is globalisation.

The contemporary debate surrounding globalism provides insights into the forces shaping privatisation, including the role that international institutions, free trade agreements and businesses play in promoting. Globalism might be viewed as an economic and political agenda for propagating neo-liberal economic policies on a global scale.[14]

The principal divisions within the globalism debate surround the extent to which supra-national free trade agreements and de-regulated financial systems circumscribe the policy agendas of nation states.[15] Critics of neo-liberalism point to the role that supra-national institutions and agreements play in forging a neo-liberal agenda.[16] According to Whitfield (2001:22) the '… neo-liberal conception of the state has permeated World Bank policy making', resulting in the imposition of neo-liberal structural adjustment programs on developing countries.[17]

Other critics of neo-liberalism like Beder (2006a:13-32, 83-108, 2006b:127-143) and Martin (1993:84-114) focus attention on the role that businesses, right wing think tanks and the media play in forging neo-liberal policy agendas. They illustrate how these institutions use their considerable economic and political influence over governments in an attempt to neutralise the impact of community opposition to privatisation and other neo-liberal economic policies.

[14] For a discussion of neo-liberal globalism see Clarkson and Cohen (2005:1-14, 15-39).

[15] For example Hirst and Thomson (1996:170) argue that, 'While the state's capacities for governance have changed and in many respects (especially national macroeconomic management) have weakened considerably, it remains a pivotal institution, especially in terms of creating the conditions for effective international governance'.

[16] See Cohen (2001) for an examination of the influence of the World Trade Organisation, North American Trade Agreement and General Agreement of Trade in Services on the deregulation of the electricity industry in Canada.

[17] Whitfield (2001:27) provides an overview of the imposition of 'structural adjustment programs' on debt laden developing countries by the International Monetary Fund and the World Bank. These programs often required the adoption of neo-liberal policies including trade liberalisation and privatisation.

Using a regulation approach Broomhill (2004:132-152) has focused attention on the influence and consequences of neo-liberalism at the level of the local state. He argues that while neo-liberal polices in states like South Australia have '… been effectively used as a vehicle for restoring short term profitability for certain sections of capital' they have not provided '… the basis for the emergence of a new localised and flexible post-fordist regime of accumulation'. Neo-liberal policies in this context do not provide an 'institutional fix' for overcoming periodic crises in capitalist economies. Broomhill (ibid) concludes that neo-liberalism only prolongs these crises '... by maintaining unproductive investment and systemic instability' which creates havoc for local communities. That state governments have adopted various neo-liberal policies is '… indicative of the regulatory crisis facing local states rather than its solution' (ibid). While neo-liberal critics like Broomhill argue that neo-liberalism has been profoundly influential at the level of the local state it has also been the focus of considerable resistance by a range of agents. Local conditions also play a pivotal role in determining whether neo-liberal policies prevail or not.

2.4 Towards a Conceptual Approach for Investigating Factors Shaping the Electricity Industry

Building on a critique of the preceding perspectives on privatisation this section outlines a conceptual approach for investigating the factors shaping the ownership of the electricity industry in South Australia.

There is a large literature that argues that public choice theory fails to adequately explain social and economic realities in mixed economies (Kuttner 1996:333-342, Self 1993:48-69, 232-261, Stretton and Orchard 1994, Quiggin 1996:72-76, Hodge 2000:36-38). The complex interrelationships and interdependencies between the public and private sectors are either ignored or obscured and the motivation for human behaviour misconceived as Stretton and Orchard argue (1994:20):

> Theory should adapt to life, not imitate scientific models developed for quite different subject-matter. Material self interest is strong and pervasive in the motivation of people's public behaviour. But it is open to many institutional transformations, and even in its pure form we do not believe that it dominates other impulses so regularly or completely that the behaviour can be predicted from knowledge of the material interests alone.

Rather than being preoccupied with maximising the size of their budget and preserving existing institutional arrangements, public servants are likely to have multiple motivations for their actions. These are shaped by the political and economic environments in which they operate and the values that they hold. Public choice theory focuses primarily on the motivations of public sector actors rather than on the wider distributional impact of privatisation privileging capital.

Within the debate about the relative efficiency of public and private provision are significant differences of opinion about the extent to which ownership is a decisive determinant of efficiency. Evidence on efficiency improvements post-privatisation is highly variable (Jackson and Price 1994:16-18). In an evaluation of studies undertaken on the financial performance of privatisation Hodge (2000:226) concludes that '... the financial improvements that accompanied privatisation tested as not significantly different from those measured in control groups that were not privatised'. In a study of privatisation in the United Kingdom, Martin and Parker (1997: 217) found that while some improvements could be found in a number of privatised firms, there was '… little evidence that privatisation has caused a significant improvement in performance'. Furthermore Cohen (2002:19) notes in relation to electricity utilities that '… the overwhelming evidence is that ownership structure is not a significant determinant of cost or level of performance'.[18]

Where efficiency and performance gains are achieved these need to be '… set against the cost of achieving them' (Jackson and Price 1994:18). This can include the costs of making workers redundant, reductions in wages in conditions, the sale of assets below their real value and an increase in consumer prices. All of these factors need to be taken into account to calculate the net economic impact of privatisation.

[18] Cohen (2002:19) cites a study undertaken by Pollitt (1995) which examined the performance of 768 thermal power plants in 14 countries. The study concluded that efficiency differences were not significant '… across ownership types'.

The contemporary debate surrounding efficiency ignores the fact that the case for nationalisation of industries during the 1940s was often couched in efficiency and economic development terms. In the British context, Millward (1995:3) argues that '… sound finance and the promotion of efficiency were central elements of the push to nationalisation …'. While the relative merits of public and private ownership are central to nationalisation or privatisation debates, any conclusions that are drawn on efficiency grounds about the superiority of one form of ownership over another tend to be counteracted by contrary evidence. That evidence tends to be selectively gathered to justify a pre-determined political outcome.

The central problem with constructing the privatisation debate in efficiency terms is that it tends to strip privatisation of its wider political and economic implications and consequences. Socialist and Social Democratic perspectives draw attention to this problem. Whereas public choice theorists argue that self-interested public servants and politicians pervert the efficient operation of public enterprises, socialist critics argue that privatisation privileges capital. The major beneficiaries of privatisation in this view are the new private owners and shareholders. They are also the accountancy, legal and public relations firms that are recruited to administer privatisation programs. Fine (1999:59) notes that privatisation consultant commissions and fees are normally around 3 to 4 percent of the value of asset sales. Assuming proceeds from asset sales of around $95 billion in Australia over the 1990s (Walker and Walker 2000:23) this would amount to around $3-4 billion in commissions and fees. More broadly privatisation can result in a transfer of wealth from the public sector to the private sector, particularly where assets are sold for less that their full value (ibid: 265-275).

2.5 Conceptual Challenges

A major conceptual challenge therefore is to understand how global shifts of the character identified by critics of neo-liberalism interact with local political and economic conditions and agents to shape public policy outcomes like the privatisation of ETSA. This necessitates the development of a multi-dimensional conceptual framework that takes

account of a range of factors at the international and local level. The typology of political and economic motivations for privatisation developed by Feigenbaum et al (1998) provides a useful starting point for this.

Feigenbaum et al (1998) argue that political rather than financial considerations are the principal motives for privatisation. Privatisation '… often takes the form of a strategy to realign institutions and decision making processes so as to privilege the goal of some groups over the competing aspirations of other groups' (1995:41). Feigenbaum et al (1998) have developed a typology of privatisation that seeks to categorise privatisation according to differing political motivations. These are:

- Pragmatic
- Tactical
- Systemic

While Feigenbaum et al (1998) don't regard the categories as mutually exclusive, they seek to examine whether particular cases of privatisation can be best understood as an expression of one of the categories. Pragmatic privatisation can be viewed as a short-term solution to fiscal crisis. Typically this might involve a government seeking to reduce its debt burden through the sale of assets. Tactical privatisation aims to draw a political distinction to derive political advantage. This approach seeks to use privatisation as a form of political market differentiation to gain or retain political power. Systemic privatisation seeks to change the balance of class power by creating a market culture that underpins capital accumulation and neo-liberal approaches to development.

The motivations associated with each of the elements of this typology are detailed in Table 2.3.

Table 2.3: Typology of Privatisation

	Elements of Typology		
	Pragmatic	**Tactical**	**Systemic**
Key motives	*public sector triage* • Reduce budget drain • Adjust to changing circumstances	*short-term shift in party of interest group clout* • attract voters • reward supporters • product differentiation	*long-term shift in balance of power* • lower expectations of government • reduce government capacity • transform political stakes

Source: Feigenbaum et al 1998:54

There is a range of possible political and economic motivations for privatisation that might be situated within this typology. Debt reduction often appears to be a pragmatic motivation for many privatisation programs, particularly those in Australia. Similarly, privatisation is also likely to be seen as more politically attractive than funding cuts as means of achieving balanced budgets, budget surpluses or tax cuts (O'Connor 1974). This is particularly the case at times of economic crisis as Cohen (2002:10) notes.

Using Feigenbaum's et al (1998) typology of privatisation the British privatisation program might be described as a systemic one that sought to curb the political and economic influence of trade unions and promote the development of a market culture within the electorate (Whitfield 1992:132). Privatisation via a public float of shares would, it was hoped, lead to the development of a greater market culture within the community. This would produce an electorate more sympathetic to the conservative government policy agenda and reduce prospects for re-nationalising industries. The issuing of shares via a public float is designed to achieve this by promoting self-interest in the newly privatised enterprise, which would weaken future resistance to any future attempt to nationalise enterprises (Ernst 1994).

Whitfield (1992:132) identifies the following political and economic motivations for privatisation which can be situated in Feigenbaum's et al (1995) typology in the following way.

Pragmatic

- increasing government revenue, enabling cuts in taxation and/or lower public spending levels than would otherwise have been the case;
- reducing the costs of producers: transferring the costs of services to the individual, reducing corporate taxation;

Tactical

- centralising power, under the guise of rolling back the frontiers of the state, and maintaining Tory hegemony.

Systemic

- increasing private ownership of key assets in the economy to make the achievement of socialism more difficult and less tangible;
- discrediting public ownership and collective provision placing greater responsibility on the family and individuals for the reproduction of labour and the costs of caring for those in retirement;
- creating new markets for private capital in the finance, production and maintenance of services and the urban infrastructure;
- reducing the strength of the trade union movement, giving management new opportunities to limit wages, demands on conditions of service, and union resistance to government policies;
- creating social fragmentation between the employed-unemployed, between different groups, areas and regions;
- creating a more flexible labour market, together with fewer regulatory controls, enabling businesses to operate more freely.

While the typology developed by Feigenbaum et al (1998) might be a useful tool for politically categorising privatisation, it does not seek to explain why privatisation takes place in some contexts and not in others. A relational approach examining the interaction between factors of influence in an historical context offers one way forward. Such an

approach demands special attention to the role that institutions and agents play in determining whether or not nationalisation or privatisation occurs. Following Jessop (1982) a relational approach acknowledges the importance of historical context and the role that ideas, contemporary circumstances, institutions and actors play in shaping policy outcomes. Such an investigation promises to provide insights into the complex interplay of forces and circumstances that surround nationalisation and privatisation debates.

2.6 An Historical and Relational Approach to Understanding Nationalisation and Privatisation

Attempts to try and explain why nationalisation and privatisation occurs require a multi-dimensional approach that seeks to examine the influence and interaction of a wide range of factors. Consequently an historical and relational approach has been adopted. The approach defines structure relationally, that is it distinguishes between structural and conjunctural moments in relation to particular conjunctures or situations (Jessop 1982:252-258).

According to Jessop (1982:253) '… the structural moment can be defined as those elements in a social formation that cannot be altered by a given agent (or set of agents) during a given time period. The conjunctural moment includes those elements of the social formation that can be altered by an agent (or set of agents)'. Such an approach helps to avoid deterministic and reductionist explanations for particular phenomena. It views power as '… a complex social relation …' that '… reflects the balance of forces in a particular situation' (ibid: 253). Moreover as Jessop argues, 'Power can be defined as the production of effects within limits set by the structural constraints confronting differing agents". In other words the power to affect a particular outcome is contingent on the political and economic context in which different agents operate. This implies viewing outcomes as the product of complex and dialectical relationships of power and influence at a particular point in history. Conceptually this requires examination of the interaction between structural conditions and the role that different agents play in shaping outcomes.

The relational approach adopted in this thesis comprises five dimensions of inquiry - conditions, ideas, policy, institutions and agents. Within each dimension is a range of forces that shape nationalisation and privatisation in different contexts. In order to understand nationalisation and privatisation we need to examine the historical context and the economic and political conditions that prevail. We also need to identify prevailing ideas and how these are expressed in policy and acted upon institutionally at the international, national and regional level. Finally we need to examine the role, motivations and relative influence of different agents in nationalisation and privatisation debates.

The approach will inform the identification of the multiple motivations and factors driving nationalisation and privatisation of the electricity industry in South Australia. A case study approach has been adopted to achieve this objective as it provides a vehicle for the detailed examination that is required.

Case study research

The thesis employs a case study approach that situates the nationalisation and privatisation of ETSA in an historical and relational context.[19] Case studies enable the researcher to investigate a particular phenomenon in great detail, offering rich insights into the causes and consequences of public policy decisions. Case studies are commonly used in the social sciences to generate knowledge and examine and develop theoretical concepts.[20]

Case study research plays an important role in the generation of ideas, knowledge, and insight.[21] A case study values context as it provides insights into the complexity of phenomena. Case study research, according to Yin (2003:14), is a strategy that '… comprises an all-encompassing method – covering the logic of design, data collection techniques, and specific approaches to analysis'.

[19] The case study approach forms part of a larger family of qualitative approaches to social science research. The utility of the case study approach has been the focus of considerable recent attention. See for example Yin (2003), Cresswell (1994), Jones (2006:315-318), Bouma and Ling (2005:89-93) and Bryman (2004:48-52), Neumann (2003) and Denscombe (2007).

[20] For an overview of a range of applications of the case study approach in political economy see Odell (2001:161-176.

[21] Yin (2003:13) defines a case study '… as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident'. Rather than viewing case studies as a methodological choice, Cresswell (1994:12) argues that case studies are an exploration by a researcher of '… a single entity or phenomenon (the case) bounded by time and activity (a program, event, process institution, or social group)' that '… collects detailed information by using a variety of data collection procedures during a sustained period of time'.

Case studies help us to better understand '… complex social phenomena …', enabling researchers to '… retain the holistic and meaningful characteristics of real-life events' (Yin 2003:2-3). The purpose of the case study has been described as illuminating '… the general by looking at the particular' (Denscombe cited in Walter 2006: 315). Case studies can help to explain why certain outcomes eventuate. They often involve the collection of a wide range of data and the use of multiple research methods including a mix of both qualitative and quantitative methods. Cases are normally chosen to represent examples that are commonly found. Yin (2003:41) classifies this as the representative or typical case. Such cases enable us to learn more about a relatively common phenomenon and situate it in a wider context.

The choice of a case study is often guided by pragmatic concerns such as the availability of data and the significance of the case in the context of the field of study (ibid, 314-317). Single case studies are particularly appropriate where they are likely to provide unique insights into a particular phenomenon and the researcher is well positioned to develop an understanding of the complex factors surrounding the case.

There are significant advantages associated with the case study approach to research. Odell (2001: 169) argues that they are '… equal or superior …' to the use of quantitative methods in generating valid theory. They offer in-depth insights into '… concrete instances or the events and behaviour about which we wish to generalise' which can '… stimulate fresh concepts, typologies and hypotheses'. Case studies can help to refine, confirm or contradict existing theory. They are of particular value in documenting processes and capturing detailed historical knowledge. While advocating the benefits of using case studies to advance theoretical debate, Odell argues that " even a case study that claims no explicit theoretical implications always conveys a much fuller understanding of the instance studied, with richer evidence and reasoning about process and context, than is possible with statistical methods" (ibid, 171).

Case studies also have their limitations, particularly in relation to developing meaningful generalisations that might be applied to other similar cases. Yin (2003:10) argues that '… case studies, like experiments, are generalizable to theoretical propositions but not to populations or universes'. Case studies have also been criticized for a lack of rigour in the

application of systematic procedures and a tendency to be verbose (ibid:10-11). An awareness of these potential shortcomings in case study research enables the researcher to realise the potential of the approach.

The purpose of this case study is not to draw generalisations with other cases of electricity industry privatisation but rather to investigate the utility of particular analytical concepts in helping to explain the range of forces that ultimately resulted in the privatisation of ETSA. In doing so the case study examines the privatisation of ETSA in both a contemporary and an historical context. In particular the case study involves an examination of the political and economic factors driving the development of public enterprise in South Australia. A key element of this is an investigation of the nationalisation of the Adelaide Electric Supply Company that resulted in the establishment of ETSA.

The privatisation of the Electricity Trust of South Australia represents a prominent case of privatisation in Australia and an ideal subject of investigation using the case study method. It is one of just two cases of electricity industry privatisation to be implemented in Australia. The privatisation represented a major public policy reversal by the ruling Liberal Government at the time, generating significant debate within the community. Understanding the factors that shaped the privatisation of the electricity industry in South Australia can shed light on why privatisation takes place in some contexts and not in others.

The prominence of the ETSA privatisation meant that there was a considerable body of commentary and perspectives available for analysis. I am able to draw on this in conjunction with my own research and reflections on the significance of the case in question.

The case study approach adopted in this thesis utilises a number of commonly used methods to gather data (Yin 2003:86). These include gathering evidence derived from documentation and archival records which were readily accessible. Interviews were not undertaken as an extensive public record of official views on the privatisation of ETSA was available. There was also a low probability that many of the proponents of privatisation would expand on their official views, given their political and other allegiances.

A literature review on international and Australian perspectives on privatisation was undertaken as a basis for the development of a conceptual framework to guide an examination of the political and economic drivers of the privatisation of ETSA. The literature review also involved an examination of published material on the development of public enterprise in South Australia from the establishment of the colony in 1836 to the privatisation of ETSA in 1998. This provided the foundation for chapters 3, 4 and 5. The limited range of published material on public enterprise in South Australia was supplemented by a number of relevant theses. A detailed chronology of public enterprise development and privatisation was compiled from the sources available.

A review of publicly available articles and documents provided the foundation for chapter 6. Over 350 newspaper articles and a range of government reports relating to the privatisation of ETSA were collected. This material covered the 1997-2000 period in which privatisation was proposed and decided. This data was summarised and chronologically organised. Around 180 South Australian Parliamentary Hansard records relating to the privatisation of ETSA were extracted and summarised. An archival search of Hansard and other records relating to the nationalisation of the electricity industry in South Australia was undertaken and details extracted and summarised.

Newspaper articles and summary content from key reports were imported into NUDIST[22] along with extracts from the South Australian Parliamentary Hansard website database. The Hansard records were downloaded from the website into word files for examination.

Key events and the major actors and institutions involved in the privatisation debate were identified and organised in tabular form to facilitate analysis. A detailed chronology of the privatisation was compiled to provide a basis for the preparation of an historical account of the privatisation process and debate (See appendix A).

Following Yin (2003) the research propositions outlined in section 1.1 guide the review and analysis of the range of data that has been collected. An historical and relational approach has been adopted to identify the range of economic and political motivations and factors that

[22] NUDIST is a software program for manipulation of textual data. It has been used as a system for storage and searchable retrieval of large textual records for this thesis.

help to explain why ETSA was privatised. A contextual overview of the development of public enterprise and the nationalisation of the electricity industry in South Australia is provided to help situate the privatisation of ETSA in a political and economic context. The immediate political and economic context to privatisation provides a backdrop to a detailed exposition of the arguments and events that led to the privatisation of ETSA.

Chapter 3

PUBLIC ENTERPRISE IN SOUTH AUSTRALIA –

1836 - 1945

3.1 Introduction

Using an historical approach, this chapter examines the emergence of public enterprise in South Australia in the context of debates on the role of the state. By situating an analysis of the nationalisation and privatisation of the electricity industry in South Australia in a historical context we are better able to understand how changing political, economic and social conditions have shaped the role of the state and informed the development of public enterprise over time. We can also observe the influence of particular institutions and individuals. Insights into these complex dynamics will help to answer whether the nationalisation of the industry was a likely but uncertain outcome.

The development of public enterprise in South Australia has been a prominent feature of public policy since colonization began in 1836 as historian, Stockley argues:

> It was quickly realised, both in South Australia and elsewhere, that the State had to undertake certain basic public utilities – which it was essential to have run cheaply and efficiently, and which demanded capital, resources and long-term planning that only the State could provide. Such enterprises included water-supply, railways, public health, roads and bridges, post and telegraphs etc.
>
> Stockley 1967:16

The establishment of public enterprises was a feature of the policies of both Liberal and Labor governments for more than one hundred years in South Australia. Table 3.1 illustrates this by providing an overview of public enterprise development in South Australia over the 1830-1946 period.[1] It indicates that despite major economic and political shocks during the period, the establishment of public enterprises was a

[1] Similar patterns of public enterprise development were evident throughout Australia during the period. See Head (1986), Griffin (1967) Painter (1987) and Whettenhall (1965).

significant feature of South Australia's development throughout the period.[2] During the establishment phase of the colony, 1830-1870, limited telegraph lines and rail lines were established. These were significantly extended during the 1871-1900 period when other public infrastructure including main sewers was established. In the early 1900s rail and tram linkages were extended. Prior to the Great Depression the 'thousand houses' public housing project was completed and the State Bank of South Australia opened.

Despite the depression, rail and tram services were extended during the early 1930s and the South Australian Housing Trust established. Water infrastructure to support regional town development in Whyalla was established in the 1940s while the Electricity Trust of South Australia began life in 1946.

Table 3.1: Public Enterprise Development: 1830-1946

1. 1830-70: Establishment of the colony	Premier	Party
1856 – Adelaide to Port Adelaide telegraph line completed.	Finnis	-
1856 – Adelaide to Port Adelaide rail line opened (the first State-owned railway in the British Empire).	Finnis	-
1857 – Adelaide to Mt Gambier telegraph line completed.	Baker	-
1857 – Adelaide to Gawler rail line commenced.	Baker	-
1860 – Railway between Adelaide and Kapunda completed.	Reynolds	-
2. 1871-1900: Further development and depression		
1872 – Overland telegraph from Adelaide to Darwin completed with assistance from SA Government.	Ayers	-
1873 – Bridge over the Murray and Murray Bridge completed and opened.	Ayers	-
1874 – Port Pirie to Gladstone rail line commenced.	Blyth	-
1876 – Port Augusta to Port Lincoln telegraph line completed.	Boucaut	-
1876-1887- 1,209 miles of rail line opened for use.	Boucaut	-
1877- Port Augusta to Eucla telegraph line completed.	Morgan	-
1880 – Main sewers of Adelaide established.		
1881- Establishment of locomotive workshops at Islington.	Playford	-
1891 – Railway between Adelaide and Oodnadatta established.	Kingston	-
1895 – Produce Export Department established to assist	Kingston	-

[2] The periodisation is adapted from Sheridan (1986:35-38). While it situates public enterprise development in a macro political and economic context, recognising the impact of key events like economic depressions and war on policy directions over the period, it is used here for descriptive purposes.

producers with access to markets. 1895 – Roseworthy Agricultural College opened.		
3. 1901 – 1920: New State, war and re-settlement		
1900 - Department of Agriculture and Agriculture Bureau for R&D established. 1903 - Largs Bay project completed by Public Works Department. 1906 – 240 miles of sewers and related infrastructure established over the preceding years. 1907 - Municipal Tramways Trust established. 1912 - East-west railway line project commenced.	Holder Jenkins Price Price Verran	Liberal Liberal ALP/LDU ALP/LDU ALP
4. 1921-1938: Depression		
1924 - Thousand homes project established. 1924 - Waite Agricultural Research Institute established. 1926 - State Bank of SA opened. 1927 - Connection of main towns by rail to Redhill. 1929 - Electric tram service to Glenelg commenced. 1935 - SA Industries Advisory Board established. 1936 - SA Housing Trust established.	Barwell Gunn Butler Butler Butler	Liberal ALP Liberal/CP Liberal Liberal
5. 1939 – 1945: World War 2		
1940 – Morgan-Whyalla pipeline construction begins.	Playford	Liberal
6. 1946 – Long Boom and Playford Era		
1946 - Adelaide Electric Supply Company acquired by Playford Government	Playford	Liberal

Sources: Burgess 1907; Moss 1985, Sheridan 1986:35-37

The following sections investigate the development of public enterprise since the colonisation of South Australia in 1836. Attention is drawn to structural and conjunctural factors shaping public enterprise at different periods in history. The role of key agents in public enterprise development is also highlighted.

3.2 Establishment of the Colony – 1836-1890

The colonial settlement of South Australia was perhaps the States first public enterprise. Public investment was widely accepted as a legitimate intervention by the state in the development of the colony. This created structural conditions conducive to public enterprise development.

British public investment underpinned the initial settlement and the 'systematic colonisation' of South Australia. While significant private investment flowed into the new colony, public planning and investment underpinned its establishment and continued to influence its development through to the beginning of the 21st Century. The motivations driving settlement of South Australia in 1836 were those of the British government which saw 'systematic colonisation' of South Australia as a means of extending economic influence and relieving political tensions at home. Colonisation created new markets for British products and an abundant supply of land and raw materials to fuel British industrial development.[3] The benefits to Britain of the new colony were significant as reflections in the early 20th century illustrate.

> South Australia had afforded an excellent outlet for the surplus population of Great Britain. Its commerce was already of some value, and destined very shortly to increase with great rapidity. It afforded a fine field for British capital and energy. It was a far cheaper possession than the other Australian settlements. The success of its fundamental principles was a splendid contribution to the art of colonisation. Altogether in this transaction the Imperial Government made a magnificent and highly remunerative investment.
>
> (*Cyclopedia of South Australia* 1907:115)

In this early stage of South Australian political and economic development, one of the main objectives of the architects of settlement was to create new opportunities for capital accumulation involving combinations of public and private sector investment (Pike 1957:78-79; McFarlane 1986:6).

[3] For a wider discussion of the economic motivations underpinning colonisation of Australia see Sinclair (1976).

While the objective of assisting capital accumulation can be seen as a thread running through many South Australian public policy debates, the development of public enterprise cannot be reduced to this alone. Public enterprise development responded to other pressures and needs, particularly those of an increasingly influential labour movement, which sought to challenge the privileged economic and political position of property owners in South Australia. In this way the state can be seen to perform both accumulation and legitimation functions (McFarlane 1986:1-30). The state acts in various ways to create the conditions for more rapid accumulation of capital while responding to pressures from labour and other interest groups for reform as political economist McFarlane (1986: 4) argues:

> … the government's involvement in accelerating economic growth and its attempt to influence capital accumulation has been balanced by concern for public acquiescence and consensus during periods of change. This was the 'legitimation function' of the state in South Australia. The state attempted to make what it was doing relevant to the needs of capital and also acceptable to labour, at least in the main ... A kind of trade-off between quantitative growth and quality of life was managed …

Public enterprise has never represented a serious threat but rather an aid to the development of industrial capitalism in South Australia. With some exceptions this was a view that would prevail in the political mainstream until the 1980s. The early government interventions in the South Australian economy reflected British colonial objectives pervasive in Australia at the beginning of the 19th Century. Key among these was a determination to reproduce capitalism in the new colonies.

3.3 Public enterprise in the establishment phase

Soon after self-government was achieved in South Australia, public enterprise and investment become a major stimulus to industrial development and capital accumulation, a pattern of development that was evident in all Australian states.[4] Financed through the issue of government bonds, new infrastructure projects attracted considerable finance from British investors. By the end of the 19th Century the state's share of total investment had grown significantly to around £11.3 million, exceeding total private investment of around £8.7 million (McFarlane 1986:5). Public enterprise development can be seen as both a tool of

[4] A wide range of public enterprises was established in the Australian states from the 1880s onwards. See Butlin, Barnard and Pincus for an overview (1982:24-28).

state development and an aid to capital accumulation. Central to the achievement of these objectives was the establishment of transport and communication networks.

In 1856 the first government owned railway in Australia was completed to support the movement of goods between Adelaide and Port Adelaide (Burgess 1907:135). Communications between the two centres were improved through the establishment of a telegraph linkage. By 1860 the railway had been extended to Gawler and Kapunda. Sections of capital played a key role in advocating for this form of public investment. Hirst (1973:101-102) notes that mining and pastoral interests played an active role in campaigning for the extension of publicly funded rail networks throughout the state.[5]

Partly in response to growing pressure from capital, the South Australian government extended rail and telegraph linkages during the 1870s (ibid: 104-107). Perhaps the most significant of these was the construction of the 1,600 mile long overland telegraph from Adelaide to Darwin. Once completed the line would open up instant communications with Europe and much of the world, greatly improving the prospects for successful marketing and export of Australian produce. The South Australian government played a critical role in the construction of the line. In 1870 the government of Henry Ayers eager to see the base for the British-Australian telegraph system in Adelaide rather than Brisbane, committed significant public funds to the construction of the link (ibid:144). Like many state sponsored infrastructure projects in the late 19th century the telegraph line was an enormous undertaking. The scale of project was clearly articulated by its main architect, Sir Charles Todd:

[5] The Railway Extension League played a key role in advocating for regional rail networks in the early 1870s. Despite wide support for publicly funded railway extensions, there appears to have been considerable disagreement among property owners and commercial interests about the precise routes of the new railways. See Hirst (1973:102-105) and Butlin, Barnard and Pincus (1982:22) for illustrations of this.

> … besides the explorations from sea to sea, we had to cut, prepare and cart about 36,000 telegraph poles weighing about 5,000 tons, cart them an average distance of eight to ten miles, and a maximum distance of 350 miles; a larger number of iron poles, imported from England, being carted an average distance of 400 miles and a maximum distance of 560 miles. Besides this we had to transport some 2,000 tons of other materials to the interior, and drive several thousand sheep and cattle miles north of Pt Augusta; to cut and clear tracts fifty feet wide through sum 500 miles of forest and scrub; to cart building materials, instruments, batteries and other stores for station…
>
> (cited in Burgess 1907:144)

The Adelaide to Darwin telegraph line was completed in December 1873 at a cost of £479,184. This was followed in 1876 by the construction of the Port Augusta to Eucla link, enabling communication between Adelaide and Perth (Burgess 1907:279). With the introduction of telephonic technology into South Australia in 1880 began the construction of extensive public telephone networks by the Postal and Telegraph Department. By the end of 1883 telephone exchanges had been installed in Adelaide and Port Adelaide. The network soon grew throughout the city and was extended steadily throughout rural South Australia by 1907 (Burgess 1907: 279).

Other major public infrastructure works during this time included the building of a road and rail bridge spanning around 250 metres over the River Murray in 1873 and the commencement of the Port Pirie to Gladstone railway. A dramatic expansion of the role of government in the development of public infrastructure came under consideration in 1884. In that year J.P Boucaut MP, while in opposition, outlined details of an ambitious public works program as part of his pre-election statement. The program, which came to be known as the 'Boucaut Policy', involved the use of a £3 million loan to fund a four year public capital works program. The aim of the program was to fund the construction of "works of a reproductive and national character" (Burgess, 1907:148). Around £2.3 million of the loan was to be used for constructing 550 miles of new railway while the remainder was for other public works including harbours, jetties and school houses (Burgess 1907:148). This would ultimately enable public works to be undertaken on a much larger scale than had been possible in the past (Hirst 1973:107-111).

When Boucaut was elected to Parliament in 1875 he attempted to introduce the scheme. To fund the interest payable on the loan he proposed a new revenue measure though a Stamp Duties bill. While he had the support of the House of Assembly, the Legislative Council rejected the Bill.[6] While the scheme was never implemented, many of Boucauts intentions were realised as Burgess (1907:149) argues:

> Though the Boucaut programme was never carried out in its entirety, the spirit of it lifted South Australian politics to a higher level, continued to operate for many years, and the greater part of it being adopted by succeeding Ministries the purpose of its author practically came into effect.

Between 1876 and 1887 around 1,209 miles of rail line were open for use (Burgess 1907:372). Hirst (1973:95) notes that '… all but one of the railways lines of the colony were connected into one network …' by this time. Recognising the associated trade and land development benefits of extension of the rail network, commercial and financial interests were powerful advocates for public investment in railway projects. To support the railway industry, locomotive workshops were established at Petersburg, Quorn, Port Wakefield, Naracoorte, Murray Bridge, Glenelg, Adelaide and Islington. The rail system was a major public employer with over 3,500 employed by the SA Railway Department by 1906 (ibid:379).

Combined these public works represent a significant investment by the State in fostering capital accumulation in the early stages of development of the South Australian colony.[7] Economists, Butlin, Barnard and Pincus (1982:28) suggest that it was also necessary as a response to pressures from growing rural settlements that had limited access to private means of transport over long distances.

While substantial resources were devoted to public works programs throughout the 1870s, the onset of depression in the 1880s made this difficult to sustain. Changing structural conditions slowed down but did not reverse the historical trend of public enterprise development at this time. In 1876 the Port Augusta to Port Lincoln telegraph line was completed. Like the Adelaide-Darwin line this was a substantial and difficult undertaking. It

[6] Boucaut encountered considerable resistance to his plan in the State Parliament. By 1897 he secured support for his plan. For details of this see Hirst (1973:107-109).

[7] In the wider Australian context Butlin, Barnard and Pincus (1982:22) argue that '… the large scale public provision of infrastructure served as a powerful support to private enterprise and personal amenity'.

was intended that the line would be constructed using private contractors but the high costs of the tender proposals persuaded the Telegraph Department to do the work itself. The 759 mile line took nearly two years to construct and cost £68,205 (Burgess 1907:150). By 1880 extensive sewerage infrastructure in Adelaide had also been completed (ibid: 394-95).

The benefits to landowners and industrialists of public investment during this period were considerable. Without it, the pace of industrialisation is likely to have been much slower and opportunities for capital accumulation more limited. Public investment in infrastructure was acceptable as an aid to accumulation so long as it did not involve the introduction of taxes affecting land owning interests, particularly those of the conservative members of the Legislative Council of the South Australian Parliament.[8] In this context public enterprise development can be seen to be operating within prescribed political limits. These limits would alter in response to the emergence of tensions between the objectives of government, capital and labour. Public enterprise development in this context can be seen as the state responding variously to accumulation and legitimation functions. As political and economic circumstances changes so to did the role of the state in promoting capital accumulation and addressing growing social and political pressures which threatened to undermine the legitimacy of capitalism and the states role in sustaining capitalism.

3.4 The 1880s Depression, early challenges to privilege and the rise of the industrialist

By the end of the 19th century the concerns and interests of working class and unemployed people were driving a movement for significant social, industrial and political reform in South Australia. Public enterprise in this context can be seen to have wider objectives reflecting growing pressure from working class interests. The growth of manufacturing industry and the rise of an industrial working class and industrialists began to profoundly influence the political landscape, dominated for so long by rural land owning interests. As this new landscape emerged and economic depression unfolded, political tensions were revealed. The depression years of the 1880s saw the growth of significant social and

[8] The Legislative Council is the Upper House of the South Australian Parliament, which is based on the Westminster system of governance. Until the 1970s members of the Council could only be elected if they were male and owned property in excess of 100 pounds. In 1973 this was abandoned and legislation was passed to introduce a system of proportional representation.

economic hardship (Dickey 1986: 122-124). The impact of the international economic slump on local industry was profound, leading to high levels of unemployment. With manufacturing industry struggling and unemployment rising, manufacturers and workers called for industry protection to help insulate local industry from international competition. The campaign for protection by workers and manufacturers had some success when in 1885 the Downer government passed the Customs Act, providing some measure of protection for local industry (Moss 1986:124). The movement for protection during the 1880s was accompanied by attempts to reduce competition for available work by restricting immigration. The privileged position of landowners in the colony came under challenge during this time with a growing movement for the introduction of a tax on the unimproved value of land, inspired by the ideas of the British economist Henry George who had visited South Australia in the 1880s.

The growing political influence of working class people and unions at the end of the 19th century followed defeat in the maritime strike of the 1890s – one of the most influential political events of the time. During the Maritime strike in 1890 unions and workers had struggled for the principle of the right to combine and organise. Facing defeat after a dramatic two month long strike and bitter at the role of the State government in supporting employers, many workers and their unions began to see Parliamentary representation as the best means of securing workers rights and interests.

The establishment of a political party representing working class interests would change the face of South Australian parliamentary politics and usher in a robust debate within the Parliament about the role of the state in economic and social development. As we shall see in the following section the establishment of public enterprises was a key feature of this new political landscape.

3.5 Industrial turmoil and economic crisis – 1890s

Changing structural economic and political conditions during the 1890s ushered in a new era of public enterprise development. The 1890s were a period of political and economic turmoil in South Australia and the nation as a whole. Industrial unrest at the beginning of the decade was followed by economic depression. By the end of the decade political and economic events would give rise to Labor as a political force in Parliamentary politics. The maritime and shearers strikes of 1890 while resulting in the defeat of workers and their unions, acted as a catalyst for working class engagement in the Parliamentary process. As Ganzis (1959: 18) argues:

> It was the failure of the Great Strike, as well as the example of the eastern colonies of government intervention on behalf of the employers, that led labour to accept parliamentarism as the only solution to their problem…The TLC decided that labourers should be directly represented by men of their own class since they alone were conversant with the immediate wants and aspirations of the workers. They felt it an injustice that they should be compelled to live under laws which they had no share in making.

The result of this movement for reform was the establishment of the United Labor Party.[9]

The collapse of major banks in Melbourne in 1891 marked the beginning of a deep economic crisis, precipitated by a dramatic decline in property values. The crisis spread to South Australia by 1893 with the collapse of local banks and building societies. The value of South Australian exports fell by around 50 percent over the 1891-98 period. As a result of this crisis, unemployment rose rapidly (Moss 1986:173-174; Ganzis 1959:20). This was a period in which the demands of working class people for industrial, political and economic reform intensified and laissez faire economic ideas came under challenge. Buffeted by industrial unrest and economic depression, new political spaces opened up in South Australia for debate about the appropriate role of government, particularly in relation to social and

[9] In 1891 the United Labor Party (ULP) was established to represent the interests of working class people in Parliament. It was the first labor party in the world and it sought a program of social and economic reform particularly in industrial relations, land and the electoral system. The reform program of the ULP, while nominally socialist, did not challenge the fundamental tenets of capitalism. It had, as Moss (1986:186) argues, '… little use for an overall political theory designed to achieve for workers the full fruits of their labour. With its attention fastened on the electoral process and with its policies drawn from the labour movement and middle classes, it saw its mission as being to reform the existing society gradually'. Attempts to reform or 'humanise' capitalism rather than pursue socialist transformation would remain the mission of Labor parties in Australia over the next 100 years (Johnson, C, 1989: 1-3; Dunstan 1999:19-20).

economic problems such as unemployment. While state finances were damaged by the depression, the broad commitment within in government to public enterprise development remained. The rising influence of the labour movement within the South Australian Parliament reinforced this commitment.

The conflict and frustration expressed in the early 1890s was reflected in the rise of 'radical liberalism' and in the emergence of Labor as a political force. At the beginning of the 1890s the liberal ascendancy prevailed in South Australia leading to the election in 1893 of the government of radical liberal Charles Cameron Kingston.[10] Kingston and his radical liberal colleagues can be viewed as key agents in the history of public enterprise development in South Australia. For this reason a more detailed exposition of the Kingston government's interventions in state development is warranted.

The successful attempts during the late 19th and the first half of the 20th Century to introduce legislation sympathetic to Labor ideals and to develop state enterprises were heavily dependent on support from radical liberals within the Liberal Union (Muirden 1978:4). While the Kingston government comprised a significant number of radical liberals it was formed with the support of ULP members. In practice the Kingston government maintained control over policy directions but rarely were these different from those sought by the ULP (Jaensch 1986:194).

That the Kingston liberals and the ULP shared similar policy objectives is a likely reflection of the broader political context in which they were operating. In particular it was necessary to take account of the growing political influence of unions and other groups seeking substantial political and economic reform during the 1890s. Kingston demonstrated a commitment to addressing this emerging political reality. His support for the grievances of unions during the Maritime strike had won him great respect from the ULP and unions (Campbell 1970:10). This respect was enhanced by the introduction of a wide range of economic, electoral, industrial and social reforms.

[10] Campbell (1970:3-6) defines the radical liberals as those who held a positive rather than a negative conception of liberty. Radical liberals accepted that the state had a role to play in encouraging and protecting liberty while their conservative counterparts rejected this notion in favour of laissez faire liberalism. Radical liberals regarded state enterprise development as a legitimate means for advancing liberty.

The reforms included a graduated land and income tax, the introduction of death duties, a high tariff to protect industry, the establishment of a State bank, the regulation of factories, old age pensions and the referendum. The Kingston Government introduced women's suffrage, the referendum and legislated for electoral reforms. Of great significance was the introduction of the first system of compulsory industrial arbitration in the world (Moss 1986:205).

The Kingston government proved to be a particularly effective advocate for a more interventionist role for government. It sought to influence state industrial development through the establishment of the Produce Export Department in 1895.[11] The establishment of the Roseworthy Agricultural College in 1895 by the Kingston Government was a further attempt to influence the shape and pace of economic development in the state. The objective of the college was to promote the use of more 'rational' methods of farming and trial the use of different methods through the establishment of an "experimental farm" at the college (ibid 1907:352).

While Kingston once described himself as a 'State Socialist' (Kingston cited in Campbell 1970:1) he might be more appropriately viewed as an interventionist social democrat. The fact that Kingston identified himself so closely with socialist and working class ideals suggests the growing political influence of working class politics at the time. While many of the reforms introduced by the Kingston government challenged privileged interests and the existing distribution of power, wealth and income they did not attempt to fundamentally alter the existing pattern of property ownership or class relations in South Australia.

At a pragmatic level Premier Kingston's reform agenda was no doubt influenced by the predominantly working class character of his electorate of West Adelaide (Campbell 1970:10). He identified himself closely with labour politics and is reported to have described himself as a '… labour member before labour members in the fullest sense were in the South Australian Parliament' (Kingston cited in Campbell 1970:10). Kingston's political success was no doubt attributable to his astute reading of the fact that there was considerable political

[11] The objective of the Department was to assist private producers with access to markets and maximise prices obtained for commodities within those markets (Burgess 1907:347). A review of the Department by R.G. Butler, Minister for Agriculture in the Kingston Government suggested that the Department had played a significant role during the mid 1890s in stimulating exports of a range of produce including wine, butter and meat (ibid). The Department provided subsidies for export, facilities for slaughter, refrigeration and storage.

momentum being generated by working class interests and the unemployed at the time. His particular brand of liberalism emerged in this context.

In the wake of the industrial unrest and economic slump of the early 1890s Kingston forged a more interventionist role for government, challenging the laissez faire economic orthodoxy that had prevailed earlier. He made this view clear in relation to dealing with industrial disputation where he argued that, '… these days the State need make no apology for interference, for industrial disputes affect the entire community. The sole question seems to me how can the state intervene most advantageously' (Kingston cited in Campbell 1970:3). This was a view shared to a large extent by both the radical liberals and the ULP.

The rise of the radical liberals reflects a wider rejection of 'laissez faire' economic ideas and the growing influence of 'social democratic' and 'socialist' ideas at the time. Both Labor and Liberal reformers aimed to satisfy some of the demands flowing from the social and industrial unrest of the 1890s, some believing that the threat to capitalism posed by socialism would be lessened if reforms were conceded (Moss 1986). In the depth of the depression the maritime strikes of the 1890s were a strong expression of widespread working class discontent. They represented a serious threat to the legitimacy of the prevailing capitalist order. In this context regaining political legitimacy required responding to demands for political and economic reform from working class groups.

Growing rejection of laissez faire ideas opened up a political space for debate around a more expansive role for government in economic and social development. The public sector played an increasingly significant role under the Kingston government. These reforms met with strong resistance from conservatives in the Upper House, some like William Copley who regarded them as '… too much encroachment by government of a socialistic character and too much interference with private enterprise' (Copley cited in Moss 1986:205). While supportive of many of the Kingston government legislative reforms, the ULP became increasingly critical of the administration of those reforms (Jaensch 1986:188) and the failure to adequately address unemployment (Moss 1986:207).

Kingston would remain Premier for a record term of six years before losing support in 1899. While the Kingston government had been able to maintain Upper House support for much of its legislative program, it lost power when it attempted to extend the franchise of the

Legislative Council (Jaensch 1986:187-89). The Kingston period combined structural conditions conducive to public enterprise development and the individual and collective advocacy necessary to successfully translate this into government intervention on the ground. Other Australian States were also actively developing public enterprises during this period reflecting widespread acceptance of an interventionist role for the State in development at that time. [12]

3.6 Socialism and labour – the growing influence of the left in South Australia

The 1890s marked the beginning of a transformation in politics in South Australia. The political conditions that prevailed during this period were favourable to the development of public enterprise. Since its inception, the South Australian Parliament had been dominated by independents and marked by considerable instability (Ganzis 1959:20).[13] By this time the party system had become a feature of South Australian political organisation.

The emergence of labour as a political force in South Australian parliamentary politics came at a time in history when the economic ideas of 'laissez faire' were under challenge throughout many parts of the world (Quiggin 1996:7). Among the most influential of the challenges to economic liberalism was the radical critique of capitalism provided by Karl Marx in the mid 1800s. Marx's critique of capitalism would go on to fuel the growth of socialist thought and action throughout the world. His ideas were particularly influential upon some unions and many working people in Australia at the beginning of the 20th century.

The ideas of Marx were on the periphery of South Australian politics until early in the 20th century. They no doubt influenced the ULP and radical liberals who would have closely observed events culminating in the Russian revolution of 1917. Antithetical to the principles of land ownership underpinning the South Australian colonisation, socialism represented a threat to the established capitalist order. Despite this, socialist ideas found a significant following among those excluded from land ownership as the result of 'systematic

[12] See Butlin (1959:26-78) and Painter (1987:18-22).

[13] Ganzis (1959: 20) notes that over the thirty-seven years to 1893 the leadership of the government changed thirty three times.

colonisation'. Not surprisingly, the first radical challenges to colonial privilege were to the narrow concentration of land ownership. Critics like the Fabian, Henry George challenged the regressive impact of the Wakefield scheme upon the distribution of wealth. In the depths of economic slump in the 1880s this privilege would have been more easily identified through a socialist lens as Moss illustrates (1986:188):

> Land and its resources, George held, were a gift of nature, the source of all wealth, and the field of labour, but they were the property of private landowners. As population grew and production advanced, land values appreciated. But because of the monopolization of land, the proportion of production appropriated by the landowners increased, while that of labour and capital decreased. As the growth of society contributed to increasing land values, the way out of this dilemma was to make the land the property of the community. A less painful way to do this than by confiscation was for the State to levy taxation on rent.

The ideas of Henry George were influential during the 1880s. They were canvassed widely in the Adelaide *Register* newspaper in 1886 and in a range of other publications over the next five years (ibid:188). The challenge to laissez faire economics intensified through the contributions of radicals and reformers.

3.7 Radicals and reformers

While the debate surrounding the role of the state in South Australia was polarised at times between radicals and reformers the dominant tendency was for reform rather than revolutionary change. While radicals sought to bring about the end of capitalism, replacing it with socialism, reformers sought limited 'socialistic' reforms that did not aim to fundamentally alter the property and class relations upon which the capitalist system is based. By the early 1900s this debate had considerable momentum in South Australia. Driven in part by the defeated maritime strikes, the parliamentary road to reform saw the rise of the ULP and the spread of its influence in coalition with radical liberals like C.C. Kingston.

The ULP never pretended to be a party in pursuit of socialism, but rather a party seeking socialistic reforms within the capitalist system, a view noted in 1919 by the conservative newspaper, *The Advertiser.*

> Political economy has travelled from the barren laissez faire negations of its early days to a franker recognition of the duty of the State to interest itself in the social conditions of the people. The Australian Labor Party, so often defined as Socialist, has never officially accepted this ideal as its objective. It is sometimes held to be on the road towards it because it advocates the nationalisation of industries when they become monopolies in private hands, but this could be interpreted as a protest against the absence of competitive safeguards, or against the abuse of the associative, rather than as the acceptance of the Marxian gospel.
>
> (cited in Moss 1986:221)

The influence of Labor within the House of Assembly grew during the 1890s. The ULP under Tom Prices leadership entered into a coalition with the liberals in 1905. Labor achieved government in its own right in 1910 with the election of the Verran government.

By this time the ULPs performance against its reform objectives had come under scrutiny, particularly by 'radicals' familiar with socialist ideas and distrustful of parliamentary politics (Moss 1986:214). A number of unions were heavily influenced by British union activists, Tom Mann and Ben Tillett, both leaders of the 1889 London Dockers strike. Mann and Tillet played influential roles in the spread of socialist ideas and organisation throughout South Australia and Australia (ibid:214). Mann was particularly critical of the ULP suggesting that Labor Parliamentarians '… behaved in no way superior to capitalist members' (ibid: 215).

Discontent with the ULP had a practical expression in 1908 when a group of workers inspired by a recent visit by Tom Mann, formed the Socialist Party of South Australia (SPSA), an affiliate of the Socialist Federation of Australasia (ibid: 214-215).[14] Mann and others also sought to win support from workers for the establishment of a single industrial union – the United Workers Union. The SPSA provided an alternative voice for those dissatisfied with Labor (ibid: 217).

The emergence of socialist ideas and organisation in South Australia provided an alternative for those dissatisfied with the ULP. The ULP had emerged in response to the defeat of workers in the 1890s maritime strikes. Driven by the need to ensure that the office of

[14] During this time socialist organisations affiliated to the Federation had been established throughout most of Australia. The principal objective of the Federation was revolutionary in outlook calling for the socialization of the means of production, distribution and exchange. The SPSA had its roots in 'syndicalist' ideas and practice where militant industrial unionism, not Labor parties were regarded as the most effective means to achieve socialism.

government did not undermine the genuine needs and demands of working people, the ULP carried expectations for reform that were not being fulfilled. By 1910 the experience of the ULP in parliament should have left few people in doubt that the party had more in common with the radical liberal than the socialist political programs prevailing during that period. This is not to suggest that the ULP was not influenced by socialist ideas but rather to indicate that the ULP was not and did not pretend to be a party committed to revolutionary socialist objectives. The test of working class support for the ULP government of John Verran came in 1912 when it lost 10 seats in the House of Assembly and the Liberal government of A.H. Peake came to power (ibid: 229).

Socialist ideas and organisation gained considerable political momentum for a range of reasons, including growing working class disillusionment with the ULP when it was in power. By using the state to break strikes the ULP Government of John Verran fuelled interest among working people in political alternatives. The intellectual leadership of socialists like Tom Mann and the emergence of the 'industrial unionism' of the United Labourers Union provided the inspiration and a vehicle for expression of a desire for more fundamental reform of the capitalist political and economic system.

3.8 Labor and the Socialist Objective

The development and growing influence of the labour movement served to increase the legitimacy of public enterprise as a tool of state development. The adoption by the ULP of a policy of collective ownership and control of the means of production entrenched public enterprise development as a key public policy objective of the labour movement.

The growing influence of socialist ideas in South Australia was evident at the ULP annual conference in 1917 where support was gained for inclusion of a socialist objective into the party platform. [15] With the emergence of socialism as an influential ideological and political force in the post WW1 period, support for the development of industrial unionism grew in South Australia (Moss 1986:262). That socialist ideas and industrial unionism had such a

[15] The conference resolved, 'To secure the adequate representation in Parliament and on other public bodies of organised workers and producers for the purpose of securing to each person the full result of his or her labour by the collective ownership and democratic control of the means of production, distribution and exchange, and to ensure to each person full religious, political and social freedom' (cited in Moss 1986: 254).

presence in the South Australian political landscape during the early part of the 20th century is significant. The presence of the Socialist Party of South Australia and the IWW in South Australia reflected the growing global influence of socialist ideas and organisation which emerged to contest the radical liberal and reformist Labor perspectives dominant in South Australian politics during this period.

After the defeat of the Kingston government in 1899 the radical liberalism that thrived under Kingston lost ground to the growing influence of the conservative National Defence League (Jaensch 1986:198). Support for the ULP declined sharply at the 1902 election elevating and bolstering the position of conservatives for the next few years. The reform program of Kingston was largely discarded (ibid:199).

Divisions within conservative forces provided the first opportunity for Labor under the leadership of Tom Price to form a government in alliance with independent liberals in 1905.[16] Price's political views had much in common with the radical liberalism of Kingston. He had supported the Kingston reform program till the government wavered in passing its budget, which made provision for public works to help counter the impact of the depression (Ganzis 1959:40). While Price was a strong advocate of state enterprise, he was careful to draw a distinction between socialism and state enterprise. Reflecting on the establishment of the State Bank and the Produce Export Department under the Kingston Government, Price was dismissive of critics who saw public enterprise initiatives as socialistic.

> (This is) a work that (has) been described as socialistic. (I do) not care what it (is) called so long as it (does) good work. When private enterprise (will) not step in and do that which it ought to do owing to its cautiousness and being afraid to lose anything, (I reckon) it (is) the State's duty to step in and do that for the producer which the producer (cannot) do for himself.
>
> (Tom Price cited in Ganzis 1959:31)

Price shared some of the pragmatism of the radical liberals. While he generally favoured government taking responsibility for the construction of major public works, he supported the private sector undertaking the task if he believed that it would be undertaken more '…cheaply and efficiently' (Ganzis 1959:31). Although economic conditions had greatly

[16] The ULPs policy platform for the election included a strong commitment to public ownership of railways, tramways and wharfs (Muirden 1978:4-7).

improved and South Australia had entered a period of relative prosperity, Price was reluctant, following the financial crisis of the 1890s, to support government borrowing for the purpose of public works (Ganzis 1959:57). He favoured funding public works projects from revenue rather than loans (Ganzis 1959: 51-52). Price focused his attention on attempting to reduce public debt built up over the depression years. Despite this change in attitude and funding mechanisms for public enterprise, there were significant new public infrastructure projects initiated by the Price Government.

3.9 Public Enterprise and the Price Lab/Lib alliance

Tom Price sought to bring the privately run metropolitan tramways under public ownership in line with Labor's policy platform. This required support from the Liberal Union. An agreement was forged in 1906 between Liberal Union 'radical liberals' and Labor enabling the privately run metropolitan tramways system to be brought under public ownership and control (Muirden 1978:6).[17]

In arguing for greater public control of the tramways system Chief Secretary of Labor A.A. Kirkpatrick attempted to distance the proposal from accusations of nationalisation or socialism. He argued instead that the proposal was a '… purely municipal …' one and claimed there was '… not even a shadow of nationalisation …' or '… suspicion of socialism …' associated with it (Kirkpatrick cited in Muirden 1978:5). Labor and members of the Liberal Union had forged an agreement around public ownership of the tramways by attempting to de-politicise it.

While Labor Premier Tom Price and Liberal MP Peake arrived at an accommodation involving the transfer of control of the tramways to a municipal trust, another issue threatened to derail the passing of the bill to establish the new trust. An important aspect of the debate surrounding the bill was an attempt to include a clause enabling the Trust to takeover the privately run electric supply company. This was strongly opposed in the Legislative Council by George Bookman, who as Chairperson of the Adelaide Electric Supply Company (AESC) was regarded by Premier Price as having a clear conflict of

[17] One of the key objectives of this proposed change was to ensure speedy electrification of the tramways system, a practice more advanced in the eastern states at that time.

interest. In the end Premier Price did not pursue the more ambitious objective of enabling possible future acquisition of the AESC, conceding exclusion of the clause in order to pass the bill, which became law on 22 December 1906 (Muirden 1978:8).

While Labor's intention to nationalise the industry was clear at this time, it was not able to secure the votes it needed in the Legislative Council to realise this objective. While the momentum for the establishment of public enterprises was strong, the nationalisation of an existing private enterprise, like the electricity industry, represented a major threat to prominent AESC shareholders who held influential positions both within and outside of the South Australian Parliament. Their resistance to public acquisition was a major political hurdle to overcome.

The debate over public ownership and control of metropolitan tramways appears relatively straightforward compared to the debate that culminated in the acquisition of wharves in South Australia. After three Royal Commissions and a protracted debate over a thirty-year period, a bill to acquire all wharves was passed in December 1913 by the Peake Liberal Unity government (Muirden 1978:8). Against considerable opposition within Liberal Unity the Chief Secretary of the Peake Liberal Ministry, John Bice successfully steered the bill through the Legislative Council. One colleague to oppose the bill was Liberal, Richard Chaffey Baker who regarded '… it as extremely undesirable for the government to do what could be done or was being done by private enterprise' (Muirden 1978:9). This was not a view shared by a large section of the farming community, which was in favour of the acquisitions (ibid:9). While structural conditions remained conducive to public enterprise, agency played a crucial role in ensuring that they were established. Understanding the development of public enterprise requires an understanding of the interventions of different agents at different points in time.

Not all attempts to establish public enterprises were successful during this period. When the Verran Labor Government tacked a proposal to establish a state owned brickworks onto an Appropriation Bill in 1912 the bill was rejected and the Labor government was voted out (ibid:4).

Tumultuous international conditions profoundly shaped attitudes towards the role of the state in the early 20th century. World War I created an overwhelming post-war imperative for state intervention. This extended to the post-war period, which required substantial public investment to support the re-settlement of soldiers.[18]

By the early 1920s, Labor's earlier socialist objective was watered down with the adoption of the 'Blackburn declaration'.[19] While Labor argued for municipalisation of the electricity industry, the position was more fluid in the Upper House where Labor members such as Jelley conceded private ownership subject to the enterprise performing '… cheaper and better' than public enterprise (ibid:20). Liberals were satisfied with utilities being held in private ownership as long as they were run efficiently and cheaply, prices were regulated by government and government retained the capacity for acquisition of them if they needed to do so (ibid:21). Additionally it was argued that a company should not be able to exploit the monopoly position it held in the industry. Aside from Labor's qualified commitment to increased public ownership, Labor and the government had articulated similar objectives for the future of the electricity industry.

Soon after the election of a new Labor government in 1924, Labor Premier, John Gunn attempted to establish a state insurance enterprise as an alternative to private insurance. The Gunn government had only 4 out of 20 seats in the Legislative Council. While defeated in the Upper House the legislation did attract support from Liberal A.P. Blessing and Country Party W.G.J. Mill (Muirden 1978: 8). In presenting his case Gunn argued that views on the role of government had changed considerably since the turn of the century. The pursuit of the public interest warranted a fuller role for government in a wider range of enterprises as Gunn argued at the time.

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[18] A number of state supported soldier settlements were established with bi-partisan political support. Stockley (1967:28) argues that this '… bred a tolerance of State enterprise in the minds of the Liberals'.

[19] Maurice Blackburn was a prominent Federal Labor Member of Parliament who lived in Victoria. At the Brisbane conference of the ALP in 1921 he secured a change to the Parties socialisation objective, which sought the socialisation of the means and distribution of production. The new clause qualified this commitment stating that the Party did 'not seek to abolish private ownership even of any instruments of production where such instruments [were] utilized by their owners in a socially useful manner and without exploitation'. The declaration abandoned the 1917 commitment to the socialisation of the means of production, distribution and exchange. Importantly it provided qualified support for private enterprise. The new clause proclaimed:

(a) That the Australian Labor Party proposes collective ownership for the purpose of preventing exploitation, and to whatever extent may be necessary for that purpose;

(b) That whenever private ownership is a means of exploitation it is opposed by the Party; but

(c) That the Party does not seek to abolish private ownership even of any of the instruments of production where such instrument is utilised by its owner in a socially useful manner and without exploitation.

The objective was modified in 1927 to read 'The socialization of industry, promotion, distribution and exchange' (cited in Stockley 1967: 18).

> modern states abandoned the old theory that the functions of government were limited to defence, the administration of justice, the protection of life and property and the levy of taxes, and recognised that in many cases it was necessary for the State, or the municipality, in the public interest, not only to regulate private enterprises, but to undertake the establishment and maintenance of many services which formerly had been left solely in the hands of private individuals. The number of things which the community has found it necessary to regulate, or rescue from the incontinence of the ordinary business person, intent only upon a profit, has steadily increased.
>
> (Gunn cited in Muirden 1978: 9)

The pragmatism of Blessing was evident on this occasion when he stated that:

> I remember the time when I opposed the establishment of the Commonwealth Bank, but is there a member now present who would vote to abolish that bank? I am not an advocate of State enterprises except where it is deemed necessary in the interests of the citizens generally…I claim this Bill will act as a safeguard to the insurance policyholders in South Australia
>
> (cited in Muirden1978: 9).

Blessing argued that a state insurance system would be of benefit to the public because it would result in lower costs (Stockley 1967: 22). His colleague Mills shared a similar view arguing that the initiative was in the public interest and justified on this particular occasion (ibid:23).

Labor members in the Upper House repeated arguments that the broader public interest was best served by state enterprise, as unlike private enterprise, it was not driven by the necessity to have to make profits and satisfy the needs of shareholders (ibid: 23). The view that production should be for use rather than profit was strongly opposed by conservatives who firmly believed it to be nothing more than incremental socialism (ibid: 23). Other arguments mounted by conservatives against the initiative included concern about the growth and relative inefficiency of the public sector.

Stockley (1967:25) suggests that the arguments rallied against state enterprise by conservatives in the Legislative Council during this time were characterised less by sound reasoning and more by '… intellectual laziness …', leading to a reliance on '… woolly

emotionalism and well tried reliable arguments'. The onset of the Great Depression and the electoral defeat of the ULP did not realise the objectives of the conservatives.

3.10 The Great Depression

Rising industrial action signalled an intensification of class conflict during the late 1920s. An international economic downturn dampened local growth prospects, fuelling rising unemployment and hardship. Employers met little resistance from the ALP government of Lionel Hill in their attempts to depress wages and working conditions in response to the downturn (Moss 1986: 270-271). As a consequence dissatisfaction with the ALP government grew among working people and Labor was defeated at the 1927 election. The new Liberal Union/Country Party coalition government was dominant in Parliament. Labor held only 16 out of 46 members in the House of Assembly and 4 out of 20 seats in the Legislative Council (Stockley 1967: 25). While the capacity of Labor to pursue public enterprise objectives was diminished, the development of public enterprise would continue under the influence of radical liberals and political pragmatists.

In 1928 the Liberal Union/Country Party Coalition Butler government introduced the Tramways Act Amendment Bill to enable acquisition of privately owned buses by the Municipal Tramways Trust. The passing of the Bill is indicative of the pragmatic attitude of many within the government at the time. The success of the Bill relied on arguments about the need to protect the public interest in the face of reasonably widespread recognition of the inadequacies of the privately run system (Stockley 1967:26).

The ALP was back in government during 1930-33, which were arguably the most difficult years of the depression. Unemployment among trade unionists averaged around 23 percent in 1930 before rising to around 34 percent in 1932, which was one of the highest unemployment rates in the industrialised world at that time (Broomhill 1977:19-29). This political and economic environment ultimately led to the defeat of the ALP.

3.11 War Economy and Post-war Boom – From Butler to Playford – 1933-1965

The election of the Butler government in 1933 marked the beginning of the longest unbroken period of Liberal government in Australian history. Combined the Butler and Playford governments were in power for thirty-two years. This was made possible by electoral malapportionment, which favoured non-metropolitan South Australia (Jaensch 1986:239).[20]

Winning support from a majority of the Legislative Council had remained pivotal to the success of state enterprise initiatives. By the mid 1940s, just prior to the introduction of the electricity nationalisation bill in 1945 the membership of the Council had undergone significant changes (Stockley 1967: 32). In his study of the role of the Legislative Council in the development of state enterprise Stockley (ibid: 27) argues that compositional changes to the membership of the Council '… saw the removal of the "old guard" and the arrival of new men who had been reared in an atmosphere of post-war disillusionment mingled with a confidence in the growth of Australia'. In this context prevailing conditions and agency were conducive to state intervention, giving rise to influential state institutions like the Housing Trust of South Australia.

The Housing Trust of South Australia

The establishment of the Housing Trust of South Australia in 1936 remains one of the most significant public enterprise initiatives in South Australian history[21]. The arguments surrounding the establishment of the Trust are particularly important because they resonate in debates leading to the nationalisation of the Adelaide Electric Supply Company. Pragmatic justifications were a feature of both the Housing Trust and the electricity industry nationalisation debates.

The introduction of the Housing Trust Bill responded to a shortage of affordable housing in South Australia. Strong economic rather than social motivations for dealing with the shortage were evident at the time (Stockley 1967: 34). Rising rents had led to an increase in

[20] The Liberal Country League led by Premier Tom Playford held power for an unbroken period of 27 years from 1938 to 1965.
[21] For a detailed history of the South Australian Housing Trust see Marsden (1986).

the cost of living, pushing up production costs relative to the nation. This threatened the competitive position of the state. Other broader social and economic arguments made when introducing the Bill included the benefits of providing housing for the poor and the employment generating impact of increased housing construction activity (ibid 1967:34). In making the case for the Trust, Government proponents argued that it would not encroach on private enterprise and one Legislative Council member stretched the imagination by suggesting that it was '… not a government Scheme' (Sir George Richie cited in Stockley 1967: 35).

While familiar arguments against state enterprise were put, the Act for the establishment of the Trust was passed by 13 votes to 5 in the Legislative Council. Pragmatic political and economic considerations were crucial in determining support for the Trust. Badcock (1986:172) argues that the Trust became a vehicle for state development, '… functioning overtly as the State's 'development corporation', and in the absence of any formal planning organization was determining the future shape of metropolitan Adelaide'.

Arguments about the inefficiency of public enterprise were raised and fears generated that taxpayers would pay the price for this. The prevailing view seems to be that state industry development objectives were being impeded by inadequate private enterprises and that the state could create new opportunities for industry and employment development by supporting the establishment of the Trust.[22] Willingness, albeit sometimes reluctant, to use state intervention and enterprise to solve immediate or anticipated problems was once again evident as Stockley (1976:36) argues:

> These men (sic) regretted that private enterprise was to be interfered with, but they also realised that private enterprise had not done its job properly and the boost for the economy which a large housing scheme might provide.

As was often the case in the past, debates about the legitimacy of state intervention and enterprise in the mid 1930s were characterised by considerable hypocrisy. New state enterprise initiatives were argued against on the grounds that they might set a precedent, despite the fact that Liberal governments with the support of the Legislative Council had established many state enterprises. Ironically the strongest advocates of public enterprise

[22] For a more detailed discussion of this argument see Badcock (1986:169-173).

were forced to remind Liberals of this from time to time as Labor leader F.J. Condon (cited in Stockley 1967:37) did in debating the Housing Trust Bill:

> Some members have referred to the proposed scheme as a Socialist one, but I can refer them to Socialistic legislation, which has been passed by Parliament this session. If Socialistic legislation is good enough for the man (sic) on the land and producers generally, surely it is good enough for the man on the State living wage.

3.12 The Playford Era – 1938-1965

The 1930s and 1940s was a period of great hardship for the majority of Australians. The collapse in commodity prices and economic demand flowing from the Great Depression left record numbers unemployed, homeless and in poverty. On the back of this, another world war broke out, with devastating consequences for millions of people. At the same time the imperatives of wartime fuelled industrialisation enabling a rapid reduction in unemployment, making the goal of full-employment more achievable. The Labor splits of the 1930s gave way to efforts to build unity in order to win government. Federally, the wartime Labor Government of John Curtin had maintained high levels of support paving the way for Labor to remain in office under the post-war leadership of Ben Chifley.

Succeeding Richard Butler, Thomas Playford became Premier of South Australia in 1938, on the eve of a world war. An orchardist from Ashton in the Adelaide Hills, Playford was an unassuming leader with little formal education. His intervention in policy debates surrounding the future of the electricity industry in South Australia would prove to be pivotal in paving the way for the nationalisation of the industry; illustrating the important role that agency has played historically in shaping the industry.

The Playford government's contribution to the industrialisation of South Australia has been the focus of considerable debate (Wanna 1986; McFarlane 1986; Stutchbury 1986). While this debate focuses largely on the extent to which the post-war industrialisation of South Australia can be attributed to the Playford government's industrial development initiatives, it seems clear that these initiatives are not particularly exceptional when viewed in an historical context or in relation to developments taking place in other states and other nations during

that period as chapter 2 argued. Indeed there is considerable continuity of past policies and approaches evident in the actions of the Playford government.

Following the much earlier industrial development initiatives of the Kingston government, the Butler government established the SA Industries Advisory Board in 1935 and the Housing Trust in 1936. These were important pre-war initiatives, providing a base for a more co-ordinated state response to the industrial development imperatives generated by Australia's involvement in WW2. Playford's main source of strategic inspiration was J.W. Wainwright, South Australian Auditor General from 1934 to 1945. [23] Wainwright was attracted to Keynesian ideas and was among the first in South Australia to obtain a copy of *The General Theory of Employment, Money and Interest* published in 1936 by Keynes (Stutchbury 1986).

Manufacturing grew rapidly in response to wartime imperatives. Recognising that the armaments industry could be a significant opportunity to diversify South Australia's economic and employment base, Playford used his personal connections and influence to secure a significant share of military production facilities for South Australia (Jeansch 1986:250; Stutchbury 1986). The evidence suggests that the Playford government was successful in its arguments with the Federal Government. Over the seven years to the end of the war in 1945, factory employment grew by nearly one third or around 19,500. The number of factories employing more than one hundred people doubled (Moss 1986:353). Importantly this war-induced expansion of industrial activity and employment led to significant growth in union membership. The rising prominence of industrialists and the growth of union membership had important political implications. The industrialists would come to occupy increasing political influence alongside the landowning agrarian interests so dominant since the establishment of the South Australian parliament.

While Playford and the LCL governed in the immediate post-war period the broader political landscape in South Australia had been dramatically changed by the depression and the war. Radical ideas and organisations were prominent in wartime debates and led the anti-fascist movement. The post-war environment contained the seeds for the growth of the welfare state

[23] Wainwright was one of a generation of influential public servants in South Australia that played a critical role in the state's development. He was joined by Leslie Hunken and together they recruited a number of promising young people. Hunken later recruited A.M. Ramsay to head the Housing Trust. See Stretton (1989:135-138) for a discussion of the influence of these figures.

and further development of public enterprise. The political momentum for this had been gathering since the depression, but the hardships of war and the consequent unrest and desire for change, demanded a political response. Underpinning this was pressure for reform from the labour movement, socialists, liberals and others. The threat of communism drove the mainstream political parties to continue to seek a 'third way' between 'laissez faire' economic liberalism and socialism. For Labor this was social democracy while for Playford it was a pragmatic variant on the radical liberalism of C.C. Kingston infused with some of the influence of economist J.M Keynes.

Keynes was the dominant economic thinker informing post-war re-construction in capitalist countries. His influential work *The General Theory of Employment, Money and Interest* provided considerable economic and political legitimacy for public investment and public enterprise. This was particularly the case in the context of the emergence of 'cold-war' ideological and political tensions. The fear of the advance of socialist ideas and influence was significant, particularly among those like landowners and industrialists who had accumulated considerable wealth. In the immediate post war period socialist ideas and political organisation gained considerable momentum internationally and locally, representing a radical agenda for change that could not be dismissed lightly at the time.

The hardship of the Great Depression, followed by war generated unique historical conditions. Expectations for a brighter and more prosperous post-war future were high and ideas underpinning the role of the state in underpinning this prosperity dominant. The increasing international influence of Keynesian ideas gained legitimacy as a foil for the advance of socialism, but not public enterprise.

Public enterprise under Playford - continuity and pragmatism

The introduction of rent controls by the Playford government in 1942 is an example of the willingness of government to reject market-based mechanisms in favour of state controls under certain political and economic conditions. In this case the imperative driving the initiative was the exceptional conditions created by war, demanding that rents be kept at fair levels for both tenants and landlords (Stockley 1967:42). The *Landlord and Tenant (Control of Rents) Bill* was introduced by the Government with little opposition. Under other

circumstances this 'socialistic' initiative may have met hostile attacks and strong resistance within the Upper House.[24]

In its original form the Bill was a radical initiative, particularly given the commitment of the LCL to protecting private property interests and the historical role of the Legislative Council in providing such protection. There was however a view expressed by liberals like R.J. Rudall that individual property and other rights while paramount, were not absolute. They were contingent in his view on the rather vague concept of the proved necessity of the State.

> I believe in private ownership. I believe as strongly as anyone in the general proposition that the State exists for the individual and not the individual for the State, and I believe that the future progress of our State depends upon the preservation of the freedom of the individual to manage his own affairs. However, I believe that the complementary principles to his freedom demand from him its proper exercise and that the rights of the individual must be sub-servient to the proved necessity of the State.
>
> (Rudall cited in Stockley 1967: 49)

It appears that opposition to state enterprise hardened among conservatives in the Legislative Council over the 1936-1942 period (ibid:51). The Land Settlement Bill while responding to the imperatives of post-war soldier re-settlement challenged the principle of private ownership of land at the core of Liberal ideology. The essence of the Bill was to provide returning soldiers with financial assistance and favourable access to crown land to establish a farm or other business (Hannan 1920:225-237). Presented with the dilemma of responding to the needs of returning soldiers but committed to upholding private property rights, conservatives and liberals views about the role of the State faced a fundamental challenge with the introduction of the Land Settlement Bill. Stockley (1967:51-52) argues that this gave rise to a '… hard-core of anti-socialism' within the Legislative Council, made up of conservatives and a small number of Liberals who were unwilling to support new state enterprise initiatives and sought a return to laissez faire economic ideas. Their views would play a key role in thwarting Playford's initial attempts to nationalise the South Australian electricity industry in 1946.

[24] The introduction in 1944 of the Land Settlement Bill is of particular significance given the intent of the legislation to compulsorily acquire land to assist soldier re-settlement. This ran counter to the principle of the primacy of private ownership of land embodied in Wakefield's 'systematic colonisation' scheme. Nevertheless, despite considerable opposition within the Legislative Council to the Bill, the Bill passed, giving way to wartime imperatives (Stockley 1967:46). Such was the threat to established interests however that an amendment to water down the legislation was introduced and passed by one vote.

The Playford governments approach to the industrialisation of South Australia was characterised by a willingness to use the State as means of promoting and attracting new investment. The approach taken was to ensure a lower cost structure for industry based in South Australia. This included a promise of a relatively '… docile workforce and low wages' (Moss 1986:354). As outlined earlier the war had created the context for more rapid industrialisation in Australia and the Playford government was determined to capture a reasonably large share of munitions production facilities for South Australia. The Housing Trust played a key role in underpinning new industrial development by providing relatively cheap housing for workers and by assisting with the construction of infrastructure to support industrial development (Jaensch 1986:251). By 1965 the Trust had constructed around 56,000 houses and 50 factories (ibid:251).

3.13 Conclusion

A relational approach examining the interaction of political and economic conditions and the role of agents enables a multi-faceted understanding of the development of public enterprise in South Australia. It reveals that from settlement onwards, South Australian governments of different political persuasions viewed public enterprise as a tool of social and economic development. While the motivations for the establishment of public enterprises varied from case to case, public enterprise development remained a significant feature of the political and economic landscape in South Australia.

Structural conditions at an international and national level were conducive to the establishment of public enterprise from the mid 19th century till the late 1940s. The development of public enterprises in South Australia and the nation as a whole reflected a worldwide retreat from laissez faire economics in western capitalist countries, culminating in the development of the welfare state in the post WW2 period. A more interventionist role for the state reflected the growing influence of Keynesian and Socialist ideas in the wake of economic depression and war. The emergence of a strong social democratic and socialist movement aided by the contributions of radical liberals created considerable political momentum for change, displacing laissez faire as the prevailing ideological force.

During much of this time, broad agreement was forged between radical liberals and Labor MPs in the South Australian Parliament to public enterprise development. Public enterprises were established by radical liberal governments as tools of economic and industrial development, recognising that the pace of development could be accelerated by government intervention. With the support of Labor members, radical liberal governments implemented a wide-ranging program of state enterprise development, regulation of markets and aid to developing industries. The strong presence of radical liberals in Parliament enabled a 'third way' between laissez faire capitalism and socialism to emerge. The agency of radical liberals like Charles Cameron Kingston appears to have been pivotal in conferring cross party legitimacy for state intervention in the economy and public enterprise in particular. Kingston and his government responded to the harsh social and economic conditions generated by the 1890s recession by forging a more interventionist role for government, a direction that the nascent Labor Party would play an increasingly influential role in shaping.

The hardship flowing from the 1930s depression and WW2 created a broader political and economic environment where laissez faire solutions to social and economic problems lacked practical and theoretical legitimacy. The pressing problems of unemployment, poverty and unrest flowing from the depression and the imperatives of engagement in war, demanded collective rather than individual solutions. The demand for such solutions had grown with the intensification of class conflict. This had many expressions including growing industrial action by unions culminating in the emergence of Labor as a political force within Parliament. Labor made the pursuit of state enterprise initiatives an ideological preference rather than a pragmatic solution to particular policy problems, as was often the case with radical liberals.

In the post war years the theoretical justification for state enterprise would often be provided by Keynesian rather than Socialist ideas. The latter were important but more so in the way that they helped to create a political space in capitalist countries for Keynesian alternatives. Marxist ideas had inspired radical socialist alternatives that had some influence in South Australia, but the liberal political and economic history of the state provided a more receptive environment for the ideas of Keynes than Marx. Marxists did however often play a vital role in creating a political space for the debate on the merits of public enterprise and state intervention. They were often articulate advocates of the benefits

of state enterprise, seeking to win broader community support for collective forms of ownership.

Radical Liberals and Labor politicians supported the development of public enterprises for a range of pragmatic, tactical and systemic objectives. Pragmatic objectives appeared to drive policymakers as they sought to address market failures in an attempt to accelerate the industrialisation of the state. Tactical objectives can also be observed particularly in relation to the regionalisation of rail services to satisfy country constituencies. More broadly, systemic objectives are evident, including increasing the influence of the state over the pace and character of economic development and capital accumulation. Greater democratic control of physical infrastructure might also be viewed as an objective of social democrats.

This chapter has argued that it is vital to examine the interventions of specific agents, as well as prevailing ideas and conditions, in shaping the nationalisation of the electricity industry. While the motivations and forces shaping the development of public enterprises in South Australia were multiple, the momentum for public enterprise development remained strong in the lead up to the nationalisation of the electricity industry in South Australia. Understanding these forces for change is crucial to understanding why the electricity industry was nationalised in South Australia. This is the focus of chapter 4.

Chapter 5

THE RETREAT FROM PUBLIC ENTERPRISE

5.1 Introduction

To fully understand why ETSA was privatised we need to examine the political and economic drivers of the international retreat from public enterprise that took hold in Australia in the late 1980s. It is necessary to investigate how changing international and local economic conditions interacted with key events and agents to contribute to the resurgence of economic liberalism.

The chapter examines the increasing influence of neo-liberal economic ideas and conservative political parties in the Australian context and the impact that this had on the role of the state in South Australia. The chapter also outlines the political and economic shifts that generated momentum for privatisation in South Australia during the 1990s. In this context the collapse of the government owned State Bank of South Australia was a turning point in South Australian political and economic history.

5.2 The Neo-liberal Ascendancy

While the motivations of different political actors varied over time, support for public enterprise in South Australia appears to have been shaped by a desire to either humanise capitalism and/or promote a more rapid rate of economic growth and capital accumulation. In the context of the oil shocks of the 1970s this view came under challenge, particularly in Britain and the United States of America where economic liberalism gained ascendancy over Keynesianism as the guiding economic creed. Nevertheless during this period the Dunstan Labor government (1971-1977) remained committed to the role of public enterprise, establishing a range of new enterprises during the early 1970s as figure 5.1 indicates.

Table 5.1: Key Public Enterprise Developments under the Dunstan Labor Government - 1970 to 1979

1970 - State Government Insurance Commission established.
1972 - SA Meat Corporation established.
1972 - SA Film Corporation established.
1974 - Land Commission established.
- SA Linen Corporation established.
- SA Frozen Foods Corporation established.
- SA Development Finance Corporation established to develop West Lakes.

Source: Sheridan 1986:35-37

By the early 1980s the political and institutional advocates of privatisation had gained considerable momentum internationally and locally. Neo-liberal ideas were on the ascendancy. The neo-liberal ascendancy[1] in Britain, the United States and Australia during the 1980s was aided by the oil shocks of the 1970s that saw the simultaneous rise of inflation and unemployment in many western capitalist countries (Quiggin 1996:9-13; Millward 2005:262-263, 276). This eroded the legitimacy of the Keynesian ideas that had underpinned public investment and public control in key areas of the economy during the post-war period. The election of conservative governments in Britain and the United States created a political vehicle for a return to laissez faire economics. While 'Chicago School'[2] economists like Friedrich von Hayek and Milton Friedman played a significant role in propagating neo-liberalism in the United States during the 1980s, Madsen Pirie was a leading contributor in Britain (Martin 1996:45). Collectively they had considerable influence over the policy directions of the Reagan and Thatcher governments. Pirie was a particularly powerful advocate using his role as President of the conservative think tank, the Adam Smith Institute to advance privatisation internationally (ibid:49). He did this systematically through his academic research and speeches. At the Fifth International Conference on Privatisation and Commercialisation Pirie (ibid:50) boldly claimed:

> Privatisation has proven itself capable of reviving every single country. It will continue its long march through the public sectors of the world. Privatisation is finite – you have to stop when everything's gone.

[1] For a discussion of the political context to the rise of neo-liberalism see Martin (1993:45-56).
[2] The 'Chicago School' is a term used to describe an influential group of neo-liberal economic thinkers including Milton Friedman, George Stigler and James Buchanan who were based at the University of Chicago.

Neo-liberal critics commonly argue that privatisation has been fuelled by the international ascendancy of neo-liberal ideas, institutions and policies in the wake of a retreat from the policies of the Keynesian Welfare State. This has been characterised by some 'Regulation Theorists' as neo-liberal globalism (Broomhill 2004:132-152). In this context a central question, particularly for those who adopt a 'Regulation' approach to examining capitalist development, is to what extent can local states and communities shape their destinies in the face of powerful global economic and political forces? In the South Australian context, political economist Broomhill (2004:150) argues that '… the embrace of neo-liberal policies by Australian state governments is partly a result of the powerful global economic and political forces that have exerted strong pressures on them …', but 'It is also partly because state governments have been squeezed by the effects of the application of neo-liberal policies at the national level'. While the global ascendancy of neo-liberal ideas and institutions is often reflected in the policy decisions of nation states, neo-liberalism also encounters opposition and resistance, mediated by local political, economic and cultural conditions and the actions of agents.

The institutional proponents of privatisation at a global level do however constitute a powerful and influential group. Key among these are the World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) which have actively promoted privatisation and other neo-liberal policy prescriptions such as the floating of currencies, removal of tariff protection and labour market de-regulation (Whitfield 1992:281-301; Martin (1993:72-83), Wisemen 1998:101-106; Tellam 2000:18-30; Whitfield 2001:27-33; Leys 2001:8-24; Beder 2003:276-288).[3] Requirements to privatise state enterprises have often been linked to Structural Adjustment Loans of the World Bank. Martin (1993:80) notes that '… up to the beginning of 1986 only 13 percent of Structural Adjustment Loans to 21 'less developed countries' were specifically attached to conditions for divestiture of state-owned industry or agricultural marketing facilities, while 62 per cent required various forms of deregulation. By early 1992, however, the Bank's own figures showed that three out of every four Structural Adjustment Loans had divestiture conditions specifically attached'.

[3] Martin (1993:74-75) notes that while the World Bank and IMF have played a key role in promoting privatisation there are divisions with the institutions about the policy in practice.

Privatisation gathered significant international momentum at the beginning of the 1990s.[4] Figure 1 indicates how proceeds from privatisation in the OECD grew from around US$16 billion in 1990, peaking at over US$100 billion in 1998 before declining sharply to around US$20 billion in 2001. In Australia proceeds from privatisation during this period rose from US$19 million in 1990 to a peak of US$16.8 billion in 1997 following the privatisation of electricity assets in Victoria and South Australia. Proceeds declined sharply in Australia in the late 1990s mirroring wider OECD trends.

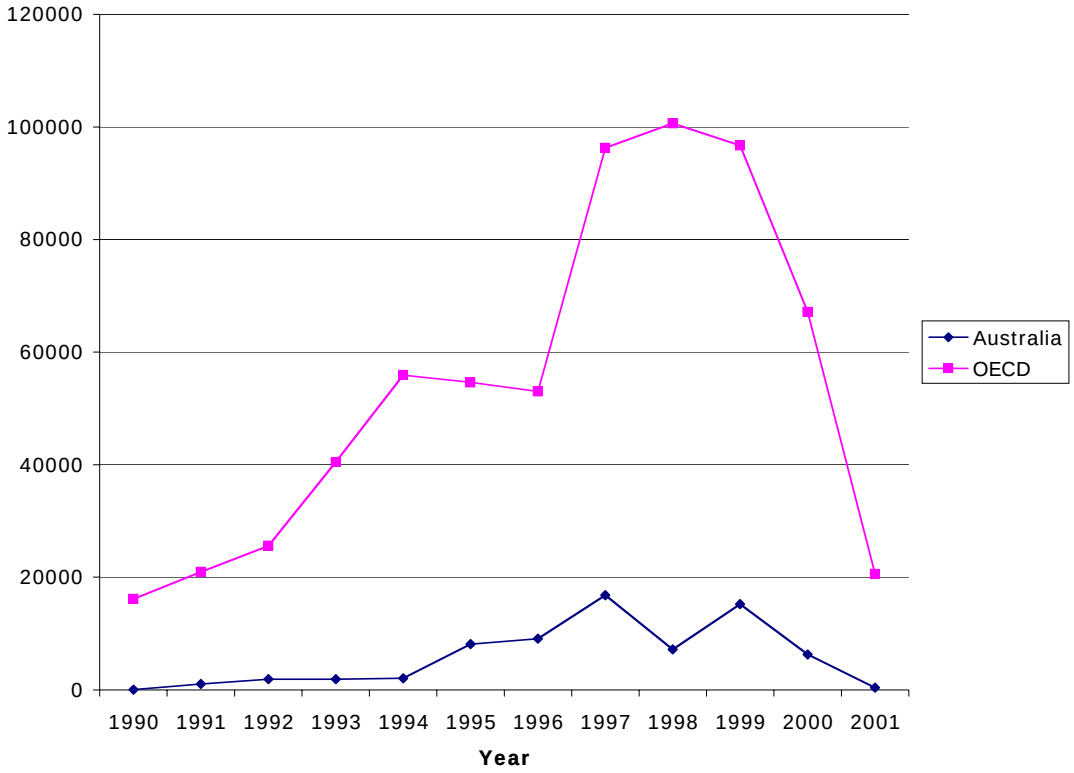


Figure 5.1: Value of Privatisation. OECD and Australia, 1990-2001
Source: OECD 2002

Proceeds from privatisation in OECD countries grew considerably till the late 1990s when it declined sharply. The privatisation of ETSA took place at the height of the privatisation boom.

[4] The Thatcher Government in Britain was regarded as a forerunner in electricity privatisation during the early 1990s. See Ernst (1994) and Surrey (1996) for a review of key developments in Britain. For an overview of privatisation and restructuring of electricity provision in a range of countries including Britain, Israel, the United States and Europe during the early 1990s see Czamannski (1999).

The neo-liberal economic ideas that fashioned the policies of the Thatcher and Reagan governments had limited purchase at a state level in Australia till the early 1990s when conservative governments came to dominate the state political landscape. For most of the 1980s, the Australian Labor Party dominated both the federal and state political spheres. Only in NSW was there a conservative state government in power consistently during that period. Like their conservative counterpart in NSW, State Labor governments adopted policies which reflected the influence of free market ideologies prevailing in the United States under the Reagan administration and in Britain under Prime Minister Margaret Thatcher.[5]

Economic Rationalism

While the Australian Labor Party was nominally opposed to the privatisation of public enterprise, an 'economic rationalist'[6] tendency within the Party often supported privatisation. The Federal Labor governments of Bob Hawke and Paul Keating and the South Australian Bannon Labor government targeted a number of significant public enterprises for privatisation.[7]

The period of Labor dominance in Australia came to a dramatic end with a series of financial disasters and allegations of political and corporate corruption and misconduct (Broomhill and Spoehr 1995:13-18). In the brief period 1992-93, Labor governments fell in rapid succession in Tasmania (February 1992), Victoria (October 1992), Western Australia (February 1993) and South Australia (December 1993). The conservative governments that came into office at that time had also been greatly influenced by the shift towards neo-liberalism which had taken place during the 1980s. The conservative political parties that were elected during this time soon adopted radical neo-liberal economic reform programs.[8]

[5] See Whitfield (1992:65-70, 127-137) and Ernst (1994:69-90) for a discussion of the influence of neo-liberal policies and the emergence of privatisation under the Thatcher Government in Britain.

[6] In the Australian context economic rationalism is a term that was used to describe some of the key policies of the Hawke/Keating Labor Governments. These policies might otherwise be described as neo-liberal in character. For a discussion of economic rationalism in Australia see Pusey (1991), Carroll and Manne (1992) and Horne (1992).

[7] Among the most significant public enterprise to be earmarked for privatisation by the Federal Labor Government at this time was the Commonwealth Bank. See Quiggin (1996:28, 155-159) for a discussion of the privatisation of the bank.

[8] See Constar and Econmou Eds (1999) and Alford and O'Neill Eds (1994) for an overview of the experience under the Kennett Liberal Government in Victoria. See also Laffin and Painter for an overview of the experience under the Greiner and Fahey Liberal Governments in Western Australia. For an overview of the neo-liberalism at a state level in Australia see Spoehr and Broomhill Eds (1995).

The influence of neo-liberalism in Australian economics and politics was the subject of considerable attention during the 1990s (Edwards and Magarey 1995; Pusey, 1991; Carroll and Manne, 1992; Horne, 1992; Rees, Rodley & Stilwell, 1993). During the late 1980s and early 1990s the Hawke/Keating Labor government pursued a range of neo-liberal policies including bank and finance sector deregulation, limited privatisation and the introduction of a national competition policy[9]. A more radical neo-liberal agenda was articulated by the Liberal/National Opposition, in the lead up to the 1993 federal election. This agenda was outlined in their 'Fightback' election manifesto.[10]

The Fightback 'manifesto' sought a fundamental neo-liberal economic transformation of Australia (Stillwell 1993:190-196). It advocated a $20 billion privatisation program; a $10 billion gross reduction in public sector expenditure; the dismantling of the centralised wage fixation system and the introduction of a system of individual employment contracts; the narrowing of the tax base through the introduction of a goods and services tax (GST) and the acceleration of the tariff phase down on imported manufactured goods. While the failure of the Hewson led Coalition to win the 1993 Federal Election placed political limits on the advancement of neo-liberal economic policies at the national level, the opportunity to do so at a state level was made possible by deteriorating economic and financial conditions.

The recession of the early 1990s combined with the collapse of the State Bank of South Australia undermined the political legitimacy of the South Australian Labor Government, creating a political space for growing acceptance of a radical neo-liberal alternative. This gave rise to the election of a Liberal State government, which was committed to a neo-liberal transformation of the role of the State that closely followed the Reagan and Thatcher political programs. A relational examination reveals that deteriorating economic conditions and financial crisis in the South Australian context paved the way for the election of a radical neo-liberal political alternative to the ruling Labor Government. While privatisation was a more likely outcome of these changed political conditions, local circumstances and actions played a key role as well.

[9] See Brian and Rafferty (1999:125-132) and Quiggin (1996:81-97) for a discussion of financial deregulation under the Hawke Labor Government.

[10] The 'Fightback' program was a detailed policy platform designed to support the election of the Liberal and National Party Coalition. It outlined a wide range of neo-liberal policy directions including privatisation and labour market deregulation.

From Fightback to 'independent' audit commissions

While neo-liberal ideas were in the ascendancy in the early 1990s, there were political limits to acceptance of these within the wider Australian community. Neo-liberal policies had significant purchase within political institutions but they were regarded with scepticism by large sections of the Australian community (Broomhill and Spoehr 1995:14-15). This was evident in the depth of community opposition to the 'Fightback' election manifesto. The rejection of the manifesto at the 1993 election did not result in a watering down of a radical neo-liberal agenda but rather it led to a change of political tactics by those that advocated that agenda. Rather than release detailed policy programs prior to an election, the Liberal and National Parties waited till after the election to outline their programs. This normally involved the appointment of an audit commission to advise the government on a future course of action. Audit commissions were a strategy borrowed from British local government where they were used to dramatically reshape the role of government, advocating privatisation, contracting out and various forms of deregulation (Whitfield 2001:87, 186).

In Australia audit commissions have been established to outline a comprehensive neo-liberal reform agenda for newly elected conservative governments to pursue (Broomhill and Spoehr 1995:16). In New South Wales, the Greiner coalition government commissioned *Focus on Reform: Report on the State's Finances* in 1988. In 1992 the Tasmanian Groom government commissioned the *Independent Commission to Review Tasmania's Public Sector Finances*. The former Victorian Labor government commissioned 'The Nichols Review' the report of the *Independent Review of Victoria's State Finances* in 1992. The incoming Liberal government of Premier Jeff Kennett created the Victorian Commission of Audit in 1992. The South Australian Liberal government of Dean Brown followed suit by establishing a Commission of Audit in December 1993.

The membership of audit commissions is worth noting. Prominent in this respect was Don Nicholls, a veteran of four audit commissions including NSW, Tasmania, Victoria and South Australia. Many of the similarities between the reviews can be attributed to his extensive involvement in each of them. Professor Cliff Walsh, an audit commissioner in South Australia, was a former adviser to the Fraser Liberal government. Professor Bob Officer from the University of Melbourne was the chairperson of the Victorian Kennett

government's commission of audit. During the early 1990s he was an active member of the conservative think tank, the Institute of Public Affairs (Crooks and Webber 1993).

Given their membership and the political contexts in which they were established, audit commissions in Australia have defined problems and identified solutions within a neo-liberal economic framework. Commenting on the logic of the Kennett government's cuts to community services, sociologist, David Hayward's explanation of the political underpinnings of the Victorian Audit Commission process resonates with the South Australian experience:

> The logic of the Kennett cuts is a political one. It involves four steps. First, enter an election campaign against an unpopular, long-standing government, using a set of 'false' policies, which are vague and generally inoffensive. Second, once the election is over manufacture a crisis atmosphere around government finances, drawing on themes that have been promoted by the media and various neo-conservative commentators in previous years, and which are implicitly endorsed by the outgoing administration. Third give the impression that these financial problems are so pressing that the Government's election commitments cannot be met. Fourth, establish a Commission consisting of people who are sympathetic to the Government's position, and then use the Commission's findings to defend the Government's strategy. Finally, embark on a savage cost cutting program that will enable the 'manufactured financial problem' to be resolved prior to the next election, and use this 'financial success story' as the basis for the next election campaign.
>
> (Hayward 1993:72)

The notion of the 'black hole' of debt was a recurring image in South Australia, Victoria and Western Australia, where it was designed to create an atmosphere of shock and urgency. Having closely observed the release of the Victorian Audit Commission, the South Australian Brown government claimed that a '$10 billion black hole' warranted radical debt reduction measures in South Australia. Declining Commonwealth grants to the States had placed enormous pressure on state government budgets. They fell from 9.5 per cent of GDP in 1975-76 to 4.9 per cent in 1994-95 (Langmore and Quiggin 1994:153).

This decline in funding to the states placed pressure on State governments to cut jobs and services, a trend which began under Labor state governments during the 1980s.

However, with a stronger ideological commitment to cut public sector social expenditures, conservative state governments accelerated the process of job and service cuts while utilising the rhetoric of a debt crisis to provide legitimation for public sector expenditure cuts (Broomhill, Genoff, Juniper and Spoehr 1995:214-225). A national microeconomic reform and competitiveness agenda gathered pace during the early 1990s, accelerating the neo-liberal transformation of the role of the state at the local level.

5.3 National Microeconomic Reform and Competitiveness

A key tenet of neo-liberal ideology is the view that firms competing with each other in a market free of state regulation will maximize efficiency. In this view government assistance to firms and industries promotes inefficiency and stifles competitiveness. Public sector enterprises must be reformed and broken up where necessary to operate on a fully commercial basis, using corporate structures and management principles borrowed from the private sector. They must also be subjected to private sector taxation equivalents. This is the essence of the micro-economic reform and competition policy agenda, which emerged in the 1970s and came to prominence in the early 1990s.[11].

The microeconomic reform agenda has its roots in the 1970s when the Whitlam Labor Government reduced import tariffs on manufactured goods as part of a strategy to expose the industry to greater international competition.[12] The floating of the Australian dollar and the removal of exchange controls in 1983 might be regarded as precursors to the introduction of a competition policy in Australia. In 1995 the Australian Government adopted the *National Competition Policy* (NCP). The reform objectives detailed in the NCP emerged from the report of the Independent Inquiry into National Competition Policy known as the Hilmer Report (Hilmer, Rayner and Tapperell 1993:321-331). They were:

[11] The aim of competition policy according to the OECD (1995) is to '… ensure workable levels of competition so at achieve productive, allocative and distributive efficiencies throughout the economy'.
[12] For an overview of key elements of microeconomic reform from the 1970s to 1997 in Australia see Industry Commission (1998).

- extension of the reach of the Trade Practices Act 1974 (TPA) to unincorporated businesses and State and Territory government businesses;
- extension of prices surveillance to State and Territory government businesses to deal with those circumstances where all other competition policy reforms had proven inadequate;
- application of competitive neutrality principles so that government businesses do not enjoy a competitive advantage simply as a result of public sector ownership;
- restructuring of public sector monopoly businesses;
- reviewing all legislation which restricts competition; and
- providing for third party access to nationally significant infrastructure.

The principal focus of the reforms was to expose government business enterprises like electricity, water, gas and telecommunications to competition from new private sector entrants. Prior to the introduction of the NCP government business enterprises were not subject to competition laws. A reduction in the cost of these services to consumers, particularly large industrial consumers was one of the stated aims of this reform agenda.

The Council of Australian Governments met in 1994 to consider the recommendations of the Hilmer report.[13] It agreed to establish the Australian Competition Commission and develop a National Competition Policy Principles Agreement (National Competition Council 1998:11-12)[14]. The Agreement committed the state and territory governments to a program of microeconomic reform in exchange for performance payments. The Australian government agreed to pay a total of $4.2 billion in competition policy payments to the states and territories over the 1998-2006 period subject to satisfactory progress with the implementation of the reforms. The NCP required government business not to '… enjoy any net competitive advantage simply as a result of public ownership' (ibid:17). It also required the application of commercial principles to the operation of enterprises and consideration of the separation of '… natural monopoly elements from potentially commercially competitive elements of the public monopoly' (ibid:18).

[13] The Council of Australian Governments brings together the leaders of the state, territory and national governments in Australia to develop policy agreements in relation to issues of common concern or priority.
[14] For a detailed overview of the evolution of the NCP in Australia see National Competition Policy (1998).

The NCP required specific reforms to public owned electricity utilities, including agreement by State Governments to support the establishment of a National Electricity Market (NEM) in 1998. The Industry Commission in Australia outlined the key elements of the NEM as early as 1991.[15] These included the vertical separation of the generation and retail arms of the industry from the monopoly elements of transmission and distribution; the corporatisation of utilities; the introduction of competition into generation and retail by providing access to the transmission and distribution systems on a non-discriminatory basis and the enhancement and extension of interconnection between interstate and territory networks (Eastham 2001:2-1).

From 1946 until 1 July 1995 the generation, transmission and distribution of electricity in South Australia was undertaken by a state government instrumentality, the Electricity Trust of South Australia (ETSA). ETSA was corporatised in 1995, and subsequently broken up into retail, transmission and energy subsidiaries, with generation being spun off into a separate enterprise, ETSA Generation. These changes were made in response to the development of the NEM and to the requirement for competitive reforms under the Competition Principles Agreement of 1995 and the associated *Competition Policy Reform Act 1995* (Cwlth).[16]

The Hilmer national competition policy reform proposals did not require privatisation. Indeed, the terms of reference of the Hilmer Committee required them to identify policies that would enable public and private enterprises to compete on equal terms. It was accepted that structural reform of ETSA would be necessary for entry to the NEM. Major reforms were initiated to prepare ETSA for the new environment. These were evident in a review of the financial performance of ETSA in 1994 as part of the South Australian Commission of Audit (1994). The Commission found that ETSA had significantly improved its performance over the 1988-93 period and recommended that it be corporatised in preparation for entry to the NEM (Commission of Audit 1994:261). ETSA had also made significant reductions in its workforce, which declined from 5,186 in 1991 to 2470 in 1997 (Quiggin and Spoehr 1998:29). Combined these reforms meant that ETSA

[15] The organising principles for the National Electricity Market were formalised by the Council of Australian Governments in 1994. The NEM commenced operation in 1998. For a discussion of the evolution of the National Electricity Market see Gallaugher 2004 and Outhred 2004.

[16] For an overview of microeconomic reform from 1987 to 1997 in the South Australian electricity industry see Industry Commission (1998:59).

was conforming to the NCP agreement and accordingly the South Australian Government would receive its share of national competition payments.

Privatisation of ETSA was not a requirement of the NCP as the agreement made clear, 'This agreement is neutral with respect to the nature and form of ownership of business enterprises. It is not intended to promote public or private ownership' (COAG 1995). While privatisation was not a policy requirement of the NCP, it was consistent with the neo-liberal economic values implicit in the NCP. These values came to be ascendant in South Australia in the wake of the 1990s economic recession, the collapse of the State Bank and the subsequent election of a Liberal Government. The new Government would claim that imperatives associated with the NCP and the establishment of the NEM required the privatisation of ETSA. The combination of a national recession and financial crisis in South Australia created structural conditions conducive to privatisation.

5.4 Financial Crisis and Political Change

By the beginning of the 1990s the State Labor Government led by Premier John Bannon was facing a national recession and the collapse of the government owned State Bank of South Australia. The political consequences of this for the Bannon Government were dire as the full dimensions of the crisis unfolded. Changing structural conditions in the context of the ideological ascendancy of neo-liberalism combined with a political crisis to create an environment conducive to privatisation.

In the immediate period following deregulation of the Australian financial system, the State Bank like many other banks and financial institutions had lent in the expectation that property prices would remain buoyant in Australia. A major downturn in the property market at the end of the 1980s was accompanied by recession, combining to significantly reduce the value of property assets to which the State Bank was heavily exposed. The result was losses to the state of around $3 billion.[17]

On February 10, 1991, Premier John Bannon announced a $1 billion bailout for the State Bank, the first of a series of bailouts that were necessary to underpin the financial collapse.

[17] See McCarthy (2002) for a detailed examination of the reasons for the collapse of the State Bank of South Australia.

This announcement was followed by the establishment of a Royal Commission into the crisis by the State Government. Six months later the bailout was increased to around $2.2 billion. In what was to be his last budget speech as Premier and Treasurer, John Bannon announced a further increase in the bailout in the 1992 State Budget. Acknowledging that he was ultimately responsible for the Bank, Premier Bannon, resigned 5 days after delivering the State Budget. He endorsed Lynn Arnold as his successor.

In the wake of the State Bank crisis, the Labor Government's support within the electorate fell dramatically. Incoming Labor Premier Lynn Arnold and his government responded to this crisis by releasing a financial recovery strategy (Arnold 1993). A crushing defeat at the 1993 State election denied Labor the opportunity to recover from the crisis it was embroiled in.[18]

Soon after the election of the Liberal Government, Premier Dean Brown announced the establishment of a 'Commission of Audit'. Modelled on the Victorian Commission of Audit established by Premier Jeff Kennett, the South Australian Commission of Audit was a wide ranging review of South Australian finances and the performance of public sector services and enterprises (Thomas, Nicholls, Janes and Walsh 1994). The Commission presented its report to the State Government on April 22, 1994. In publicly releasing the report on May 3 Premier, Dean Brown claimed that the former Labor Government were responsible for a '$10 billion black hole' in South Australia's finances.

> My Government appointed this commission as one of its first actions because of our concern that the Parliament and the public had not been told the full truth about South Australia's financial position. With this report we now have Labor's albatross-Labor's $10 billion black hole. This is Labor's legacy to South Australia and this is the week for those responsible to apologise to all South Australians.
>
> (Premier Brown, South Australian Parliamentary Debates, House of Assembly 3 May 1994)

The economic and financial crisis that prevailed in South Australia, combined with the pervasive influence of neo-liberal ideas, constituted structural conditions that were

[18] The incoming Liberal Government had a majority of 25 seats with a two-party preferred vote outcome of 61 percent. Political scientist, Dean Jaensch noted at the time that the 'Brown Government seemed to be safe for a decade at least' (Jaensch 1998a:13).

conducive to privatisation. This emboldened the Brown Government to push for a radical neo-liberal transformation of the role of the State in South Australia. The contribution of agency to the pursuit of this objective is reflected, as was discussed earlier, in the Brown Government's choice of Commissioners appointed to lead the South Australian Commission of Audit. Given its membership the Commission was not likely to present a report that contradicted the Government's economic and political objectives. On April 22 1994 the Commission of Audit presented its report to the State Government.

The Government's response to the Commission came in two waves. The first involved the release of a Financial Statement in May 1994, outlining cuts to public sector expenditure, particularly in the areas of health and education and the privatisation of a range of assets including the Pipelines Authority of SA. The second wave involved the Government's overall response to the Commission, including its intention to embark on a major outsourcing program. The privatisation of key assets came soon after.

Table 5.2 indicates that over the 1993-1997 period around $1.9 billion worth of South Australian public enterprises were privatised. This represented a dramatic acceleration of the privatisation program of the previous Labor Government which sold the South Australian Gas Corporation. The table also indicates that substantial privatisations were also being undertaken in other states and nationally by the Australian Government.

Table 5.2: Privatisation in South Australia 1993 –1997

SOUTH AUSTRALIA	**PROCEEDS**
1993-94	
SA Financing Trust	**$5m**
SAGASCO	**$29m**
SAGASCO	**$417m**
1994-95	
Austrust Trustees	**$44m**
Enterprise Investments	**$38m**
Island Seaway	**$2m**
Pipelines Authority of SA	**$304m**
State Bank of SA	**$10m**
1995-96	
Forwood Products (Timber)	**$123m**
Sign Services	**$0.2m**
State Government Insurance Commission	**$175m**
State Bank of SA	**$720m**
State Chemistry Laboratories	**$0.3m**
State Clothing Corporation	**$1.4m**
1996-97	
Radio 5AA	**$8m**
SAMCOR (Meatworks)	**$5m**
1997-98	
Port Bulk Handling Facilities	**$8m**
TOTAL	**$1,899m**
Total State governments	**$31,166m**
Total all governments	**$61,269m**

Source: The Australian, April 27, 1998

The Victorian Government, led by Premier Jeff Kennett, implemented the most substantial privatisation program of the Australian states during the 1990s. Proceeds from privatisation in Victoria exceeded $31 billion compared to around $3.1 billion in New South Wales, $3.6 billion in Queensland, $3.4 billion in Western Australia, $42 million in Tasmania and $5.4 billion in South Australia.[19] Victoria and South Australia were notable for a systemic approach to privatisation during the period, reflecting the strong influence of neo-liberalism in those states.

After a landslide election victory in 1993, the Liberal Government was expected to be easily re-elected at the 1997 election. It had a majority of 25 seats in the House of Assembly while the Labor Party was reduced to just 10 seats. The Australian Democrats held the balance of

[19] See Walker and Walker (2000:20-23) for a comprehensive list of privatisations undertaken at a state and national level in Australia during the 1990s.

the power in the Legislative Council, thereby limiting the government's legislative capacity. An initial accommodation between 'left' and 'right' within the Liberal Party was arrived at through the allocation of portfolios designed to sooth long standing tensions.

Soon after the 1994 election the government embarked on a radical program of public sector reform, including substantial funding cuts to health and education and the outsourcing of the management and maintenance of Adelaide's water and sewerage system and all government information technology services. There was widespread opposition to these initiatives by a range of unions and community organisations (Spoehr and Broomhill 1995). The negative electoral consequences of this for the government inflamed long held tensions between 'wets' and 'dries' in the Liberal Party. This tension culminated in a successful leadership challenge to Premier Dean Brown by Industry Minister John Olsen in November 1996. Ongoing instability within the Liberal Party, concern about the impact of its cost cutting program on public services, substantial leaks of key documents including the United Water contract, allegations of impropriety against Finance Minister, Dale Baker and the poor performance of the Premier during the election campaign, combined to damage the re-election prospects of the government.

The government was dealt a potentially disastrous electoral blow in April 1997 when a mechanical failure at the Bolivar sewerage treatment plant led to the release of a sulphurous stench that attracted complaints throughout metropolitan Adelaide well into June. This followed the outsourcing of the management and maintenance of Adelaide's metropolitan water and sewerage system. The plant was maintained by a private consortium called United Water, comprising Thames Water based in Britain, Generale des Eaux based in France and Kinhill Engineers, a South Australian firm at the time.

An investigation of the causes of the odor was commissioned by the Environmental Protection Agency and undertaken by consultant Ken Hartley, who was a former employee of the Engineering and Water Supply Department - the public body that had maintained the system prior to outsourcing. Hartley found that the odor problem was '... a result of operation and maintenance factors' (Hartley 1997:66). Lack of expenditure on maintenance was identified as a key factor causing a number of operational and equipment failures (ibid: 4, 67).

There was widespread opposition to the government's decision to outsource the operation of Adelaide's water and wastewater services well before the Bolivar 'Big Pong' incident. Concerned about the level of community concern, the government commissioned two public relations firms to undertake market research on community attitudes towards the government and the outsourcing proposal. The results of these surveys were never publicly released but they were leaked to the State Opposition. Both surveys revealed strong opposition to privatisation. A survey of 400 people undertaken by Kortlang found that 59 percent of respondents opposed the privatisation of government business enterprises while only 32 percent approved (Kortlang 1995:8).

In this political context the Olsen Liberal Government was set to lose a substantial part of its majority at the 1997 State election. After a landslide victory in 1993 the Liberal Government was nearly defeated. Its primary vote declined dramatically from around 53 percent to 40 percent, reducing its seats in the House of Assembly from 37 to 23, leaving it no option but to form a minority government (Jaensch 1998a:13-15). The Labor Party achieved a relatively modest 4.8 percent swing in it favor, but was reliant on preferences from the Democrats and minor parties to achieve a two-Party preferred vote of around 49 percent. The Democrats doubled their primary vote from 8 percent to 16.7 percent suggesting widespread dissatisfaction with the two major parties.

The outcome of the election was an obstacle in the way of the government's privatisation ambitions. It held a minority in the Legislative Council with the support of a National Party member and two Independent Liberals. The balance of power was held by three Australian Democrat members and Independent No Pokies MP Nick Xenophon.[20] To implement its legislative agenda the Liberal State Government had to win the support of one of these members or persuade Labor members to vote with it. At the time the former seemed unlikely and the latter fanciful.

Despite pre-election commitments to the contrary, Premier Olsen announced the Government's intention to sell the Electricity Trust of South Australia (ETSA) and Optima

[20] While Nick Xenophon was elected to the South Australian Legislative Council on a platform of opposition to Poker Machines, he was active in wider policy debates and expected to play a role in the ETSA privatisation debate if voting was tied in the Council.

Energy on 17 February 1998. A range of other assets including HomeStart finance, the Ports Corporation, the TAB and Lotteries Commission. WorkCover and the Motor Accident Commission were also earmarked for possible sale. In the absence of a majority in the Upper House of the State Parliament the Olsen Government had to win the support of Democrat, Independent or Labor members to privatize ETSA. It was evident that local political conditions were not conducive to the government's privatisation objective.

5.5 The Scene is Set

To understand privatisation we need to examine the interaction between a range of factors including political and economic conditions, prevailing ideas and the actions of agents. Global momentum for privatisation was generated by the 1970s oil crisis and the neo-liberal ideological and political challenge to the Keynesian Welfare State that flowed from this. This policy tendency was mediated at a local level by domestic conditions and actors. While this chapter suggests that structural economic and political conditions prevailing in South Australia during the 1990s were ultimately conducive to privatisation, significant sources of resistance to privatisation are also evident, as the following chapter argues.

The ascendancy of neo-liberal ideas in the late 1980s and early 1990s influenced the policies of both Labor and Liberal/National political parties in Australia and South Australia. Ultimately a broad neo-liberal economic consensus was reached when the major political parties agreed to the establishment of a National Competition Policy and the creation of the National Electricity Market.

Economic and financial crises created domestic conditions conducive to a change of government in South Australia. The recession of the 1990s and the collapse of the State Bank of South Australia undermined the Bannon Labor Government's economic and political credibility, paving the way for the election of a Liberal Government. The newly elected Brown government was committed to a radical neo-liberal economic program as a solution to the financial crisis facing the state. It sought to legitimate this through the establishment of the South Australian Commission of Audit which provided the State Government with a blueprint for a neo-liberal transformation of the State in South

Australia. The Brown Government's initial response to the Commission of Audit report included the privatisation of a range of assets but not ETSA. The lack of a majority in the Upper House of Parliament and sustained community opposition to the privatisation of ETSA represented major political obstacles. Soon after the Liberal government was re-elected in 1997 the privatisation of ETSA became a policy imperative.

Chapter 6

THE PRIVATISATION OF ETSA

6.1 Introduction

This chapter utilises a relational approach to examine the role that structure and agency played in the privatisation of ETSA. It investigates the proposition that the privatisation of ETSA might be best viewed as a political struggle for control of South Australia's electricity industry, rather than a likely outcome given prevailing structural conditions. By examining the contest of ideas and power and the actions of agents surrounding privatisation debates we are likely to be better able to appreciate this uncertainty.

It is evident that wider political and economic conditions, prevailing ideas, political power and individual agency played a critical role in shaping the development of public enterprise and the nationalisation of ETSA. The conceptual prism offered by a relational approach revealed complex interactions between structure and agency that enrich our understanding of why nationalisation of the industry occurred. In this context an understanding of the influence of prevailing structural conditions surrounding the privatisation of ETSA offers an incomplete explanation for the privatisation of ETSA. A relational approach helps to focus attention on the role, motivations and influence of different agents in the privatisation debate, helping to avoid structural determinism and reveal the local political struggles that can profoundly shape policy outcomes. The central objective here is to investigate the proposition that the privatisation of ETSA was a likely but uncertain outcome of complex interactions between structural conditions and the actions of agents.

The chapter begins with an examination of the local political and economic context to the State Government's privatisation decision and its stated rationale for privatisation. The range of arguments that emerged in response to the Government's decision to pursue privatisation is examined and the roles of a range of actors in the debate investigated. Finally the chapter reflects on the interaction of local conditions and agency in determining the course of the ETSA privatisation debate.

6.2 Context to the privatisation decision

After four years in office the South Australian Liberal Government demonstrated that it was committed to an aggressive privatisation program. Over the 1994-1997 period the government sold around fifteen public enterprises worth around $1.9 billion (Walker and Walker 2000:22). This is indicative of a systemic approach to privatisation that seeks to change the balance of class power by creating a market culture that underpins capital accumulation and neo-liberal approaches to development (Feigenbaum et al 1998:41). Despite this the Liberal state government avoided publicly canvassing the privatisation of ETSA in its first term of office. Pragmatic electoral considerations appear to have shaped this choice.

Soon after being re-elected for a second term of government in October 1997, the Premier, John Olsen announced that, contrary to previous commitments, the state's electricity industry would be privatised.[1] This was viewed as a major policy back-flip given the government's pre-election promise to retain ETSA as a public enterprise. It was also evident, as Chapter 5 illustrated, that privatisation of public enterprises like water utilities was deeply unpopular in South Australia. In this context any decision to privatise ETSA was likely to inflict considerable political damage and encounter significant resistance from political opponents and large sections of the South Australian community. The timing of the privatisation announcement suggests that the State Government was deeply concerned about the negative political impact that the decision would have. This is illustrated by the fact that in the lead up to the 1997 election the Liberal Government felt compelled to strenuously deny any accusations that it would privatise ETSA.

In May 1996 former Liberal Premier Dean Brown[2] rejected claims that the State Government was committed to the privatisation of ETSA claiming that the '… State Government has no plans and is not intending to sell any part of ETSA' and further that 'Cabinet has made a specific decision not to sell ETSA' (Coorey 1998:19). In August 1997 Treasurer Stephen Baker argued that ETSA should be retained on financial grounds. He claimed that ETSA was too valuable to the Government and that it would not make '… a

[1] See Appendix A for a chronology of key dates relating to the privatisation of ETSA.
[2] The Liberal Party in South Australia was divided into two major factions. Dean Brown led the so-called 'wet' or liberal faction while John Olsen was a major figure in the 'dry' conservative faction. The 'dry' faction gained ascendancy in the late 1980s.

lot of sense' to sell it (Coorey 1997a:10). This view was reinforced in the State Parliament by the Infrastructure Minister, John Olsen who argued that:

> No Government, current or future, would deny the revenue flow. I simply ask the question. 'Why on earth would you simply sell something when the revenue flow from that sale-that is, the debt reduction and interest saved-did not equate to the revenue flow out of the sector on an annual basis?' That is just not logical. One only has to look at the budget sheet to see what the industry is generating for us now.
>
> (Olsen cited in Rann
> South Australian Parliamentary Debates (SAPD) HA, 26 May, 1998:877)

The pragmatic arguments in favor of retaining ETSA in public ownership were followed by pragmatic arguments for privatisation. The first signs of a change in the government's public position came on 3 September, just four weeks before the 1997 State election when the new Infrastructure Minister, Graham Ingerson failed to rule out the possibility of privatising ETSA. While his stated reasons for privatising ETSA were pragmatic rather than ideological, the Liberal Government had made clear its views about other public enterprises in its broad support for the earlier recommendations of the South Australian Commission of Audit. The Government had by that time designed and implemented a large scale privatisation program, suggesting that it was, in Feigenbaum et al (1998:54) terms, seeking to effect a '… long-term shift in the balance of power' in South Australia. In conceptual terms Ingerson's support for the privatisation of ETSA can be seen to have both pragmatic and systemic dimensions.

Ingerson indicated that privatisation was an option if State '… revenue fell into a hole'. He said that it was '…an option in the foreseeable future' though the Government saw '… little gain in pursing it' at the moment. He argued that it did not make financial sense '… to sell ETSA or Optima[3] because we're getting a very good return' and as long as '… we get those returns, we stay as we are' (Coorey 1997a:10). In response to the speculation that flowed from Ingerson's comments, the new Premier, John Olsen claimed that '… there has not been any policy determination' in relation to privatisation (Kelton 6 September 1997:9). Ingerson later admitted that while in Melbourne he had informal talks regarding

[3] Optima included the generation components of the public electricity industry in South Australia.

options for private investment in electricity generation plants in South Australia (Abraham 1997a:19).

The Opposition Leader Mike Rann claimed that the government had been contemplating the privatisation of ETSA as early as 1995. On September 17 1997 he warned the South Australian community that the 1997 State election would be a referendum on privatisation. He argued that ETSA would be privatised if the Liberal Party were re-elected (Coorey 1998b:19). On the following day Premier Olsen rejected the accusation, echoing earlier comments made by Treasurer Stephen Baker. He repeated claims about the financial benefits of ETSA under public ownership arguing that 'ETSA is valuable to us and will not be sold off' (ibid:19). He later added that he has '… consistently said there will be no privatisation and that position remains' (ibid:19).

While the rationale for the privatisation of ETSA was often couched in pragmatic terms, the actions of the State Government suggests more systemic motivations were at play. In other words, the privatisation of ETSA conformed to a wider neo-liberal transformation of the state that accorded with Liberal Party philosophy and the policy directions outlined in the South Australian Commission of Audit (SA Commission of Audit 1994).[4] An examination of key government documents provides insights into the intentions of the Liberal Government.

It is evident that the Liberal Government was considering options for privatisation of the electricity industry as early as December 1995. At this time the Electricity Reform Cabinet Committee directed the Electricity Sector Reform Unit to '… assess the feasibility of establishing a joint venture with private and public sector partners to own assets of ETSA Transmission and to outsource the management and function of the business entity' (Electricity Sector Reform Unit 1996:1). The composition of the project team established for the task indicated that key government agencies and Ministers were actively engaged in the process. Membership was drawn from the 'Departments of Premier and Cabinet, Treasury and Finance, Crown Solicitor and the Economic Development Authority' (ibid:1). The Electricity Sector Reform Unit report argued that a net gain of around $34

[4] The Commission of Audit recommended that all South Australian government business enterprises should either be commercialised, corporatised or privatised. It recommended that ETSA generation should be incorporated and considered for sale. See pages 354-355.

million would flow from 'the part sale of the transmission business of ETSA' (ibid:11). It arrived at this conclusion admitting that it had not investigated '… alternative structural arrangements for ETSA ...' (ibid:1).

While options for the privatisation of ETSA were being explored by the government and ETSA early in 1995, the Government did enter into an arrangement which foreshadowed its interest in privatisation. In August 1997 it signed a $1 billion, twenty three year lease of ETSA's transmission assets to a US based financier, Edison Capital. The deal was designed to take advantage of US tax laws which enabled Edison Capital to access tax credits through infrastructure investment. In agreeing to the lease with Edison Capital the State government would receive around $75 million (ibid:10). While ETSA would retain operational control over the assets and an option to regain full control after the expiry of the lease, the deal was indicative of growing momentum within ETSA and the Government for privatisation of electricity assets.

The momentum for privatisation of ETSA was being generated not only by the leadership of the State Government but also by ETSA senior managers. In seeking the government's endorsement of the lease of ETSA's transmission assets the Acting Managing Director of ETSA Corporation, Basil Scarcella presented a number of privatisation options for consideration of the government. These included part privatisation of ETSA (Transmission Corporation) through a share float. It is likely that this position emerged from advice provided by the investment house, Schroders which was commissioned in February 1997 by the ETSA Chairperson, Mike Janes and Managing Director, Clive Armour to provide it with advice on future ownership options.

While it is unclear what the role of the Liberal Government was in initiating the provision of this advice it is evident that senior members of the government were aware of and directly involved in reviewing the work undertaken by Schroders (Janes 1998a:101). The Premier, John Olsen and Mike Janes met with Schroders on June 6 1997 while the Deputy Premier, Graham Ingerson was provided with a further briefing in Melbourne on July 18 1997 (ibid:101). The work undertaken by Schroders continued throughout 1997 despite the government's repeated claims that it had no plans to privatise ETSA. The leader of the Opposition, Mike Rann focused attention on this apparent contradiction at the time.

> Given that the Government is the single shareholder in ETSA, the Government and its head, the Premier, would have been entitled to instruct these ETSA executives that, as the Government's stated policy was not to sell ETSA, then the Schroders consultancy should not proceed. That did not happen, because the real policy of the Olsen Liberal Government has all the time been to pursue privatisation of ETSA while telling the people that it was committed to retaining ETSA in public hands.
>
> (Rann SAPD HA 1998:876)

Correspondence between ETSA and the Government demonstrate that senior Ministers supported the investigation and were briefed regarding its progress on regular occasions (Janes 1998b). After the 1997 election, further briefings on work undertaken by Schroders, were given to Infrastructure Minister Armitage and Premier John Olsen by Mike Janes. Janes advised Armitage on 17 December that the ETSA Board would be '… reaching a conclusion' regarding the issues raised by the Schroders investigation (ibid:102).

In January 1998 the ETSA Board forwarded its conclusions to the Government, recommending that ETSA be fully privatised through a share float. A letter from the Chairperson of ETSA, Mike Janes to the Government Business Enterprise Minister, Michael Armitage recommended '… that the privatisation of ETSA should be pursued immediately and that it should be implemented through a float of 100% of the shares of ETSA' (ibid:6). A fall back position involving a partial float of 49 percent of ETSA was also included in the proposal.

Pragmatic motivations for the privatisation of ETSA came to the fore again in mid 1998 when the capacity of ETSA to effectively manage risks in the emerging national electricity market emerged as a question. ETSA reported that it faced a $96.8 million write down arising from an arrangement it had with the Osborne power station for the supply of power. In its 1996-97 Annual Report ETSA indicated that it would be paying more than necessary for power from Osborne given the emergence of cheaper sources of power (Sunday Mail 1997:2). The Infrastructure Minister, Graham Ingerson claimed that he had only learnt of the write down after the ETSA Annual Report was tabled in State Parliament. This claim was disputed by the Labor Opposition which alleged that Ingerson must have known about the write down a number of months before as he had indicated this in earlier statements in Parliament (Rann SAPD HA 26 May 1998:878). While knowledge of the ETSA write down was a source of political embarrassment for the Government, the

write down did add to the Government's early arguments about the risks of ETSA operating in a competitive electricity market.

An examination of the actions and statements of key agents, preceding the Liberal Government's decision to privatise ETSA, reveals that the Liberal Government was exploring options to privatise ETSA well before the 1997 State election - despite its publicly stated position rejecting privatisation as an option. Key actors, including Premier John Olsen and Deputy Premier Graham Ingerson, were involved in discussing these options with consultants engaged by the management of ETSA.

Despite initially excluding ETSA from privatisation it is evident that the Liberal Government was committed to a systemic program of privatisation of public enterprises in South Australia. The exclusion of ETSA can be viewed as a pragmatic political decision as the Government lacked the numbers and support it required to pass the necessary legislation to privatise ETSA. While this would continue to be an obstacle for the Government, it was one that they appeared to have the resolve to aggressively overcome through influence and actions designed to change the views of key players in the Upper House of the South Australian Parliament. In this way the agency of key Government figures and ETSA management can be seen to play a vital role in determining the privatisation of ETSA. As we shall see however, there were significant forces working against this outcome.

6.3 The Privatisation Decision

This section examines the role that a range of agents played in the ETSA privatisation debate. The debate involved interventions by influential individuals and institutions over a period of eight months. A detailed examination of these interventions can shed light on whether the privatisation of ETSA might be viewed as a likely but uncertain outcome of a struggle for control of the electricity industry in South Australia. We begin with Premier Olsens ETSA privatisation announcement and the reasons the Government changed its position.

On Tuesday 17 February, 1998 Premier John Olsen announced in State Parliament that the Government had decided to sell ETSA and Optima. He indicated that the government was also considering the sale of a range of other assets including the TAB, Lotteries Commission, WorkCover, Motor Accident Commission, HomeStart and the Ports Corporation. Premier Olsen claimed that it had always been his 'stated intention to retain ETSA and Optima but risks associated with joining the National Electricity Market had led to his change of mind' (Olsen SAPD HA 17 February 1998). While pragmatic motivations were advanced for this change of mind the announcement of a privatisation program of this scale is evidence that the Government's sought to systemically privatise public enterprises in South Australia.

There were two main reasons given by the Premier for the policy reversal. Broadly these were that the State Government had to sell ETSA to eliminate a range of 'massive' risks to taxpayers associated with South Australia's entry into the NEM and because there was no other way of making South Australia '… debt free …' (ibid). The Premier claimed that he had only become aware of the '… ramifications of the national electricity market …' after the release of the Annual Report of the Auditor General in December 1997 (ibid). He argued that the report indicated that the risks associated with retaining ETSA in public ownership had substantially increased in the context of the establishment of the NEM and that the State Government should and could eliminate these risks through privatisation. He also argued that the report indicated that South Australia risked losing up to $2 billion in payments due to it under national competition policy arrangements. A further but unrelated argument was that current public debt levels compromised the capacity of the Government

to '… balance the budget' and '… put money into essential services such as health and education' (ibid). He argued that it was essential to substantially accelerate public debt reduction stating that '… if we do not take action to divest ourselves of these assets now, the future has the potential to be bleak' (ibid). At the time public debt had declined from around $9 billion after the State Bank crisis to around $7.4 billion. The interest payments on this debt were around $2 million per day the Premier claimed.

In making the sale announcement Premier Olsen evoked the powerful image of the 1991 State Bank crisis, claiming that 'We could … suffer a financial disaster of State Bank proportions by clinging to our previous policy direction of retaining ownership of ETSA and Optima' (ibid). On the day after the announcement he continued this theme by drawing direct parallels between the circumstances preceding the State Bank crisis and those currently confronting ETSA. Just as financial deregulation increased the risks faced by the State Bank, national competition policy and the creation of the NEM increased the risks faced by ETSA. To avoid similar consequences he argued that the sale of ETSA was the only effective way to manage these risks and the only financially responsible course of action to take (SAPD HA18 February 1998).

The Premier found further justification for the sale of ETSA in a report prepared by Alan Moran of the Institute of Public Affairs, a conservative economic think tank based in Melbourne. The report urged the State Government to '… move quickly to privatise its electricity supply…' arguing that '… privatisation would prevent the State's taxpayers from being exposed to risk if competitive pressures reduced prices and profits in the electricity market' (ibid). Moran argued that privatisation would result in improved efficiency and net benefits to the State Budget. The Premier backed claims about the financial risks associated with retaining ETSA, referring to comments made by Graham Scott, Director of the right leaning SA Centre for Economic Studies. Scott claimed that:

> … the South Australian industry will be hard put to compete when the national grid is fully developed … and the ability to sell into other States will be very limited … ETSA's value on the marketplace is a lot more likely to decline over the next couple of years than it is to go up.

The sense of crisis and urgency contained in the Premier's February 17 announcement was sustained over following days with claims that the '… sale of assets was essential to

protect the State from bankruptcy and to protect services such as schools and hospitals'. The sale, he argued, would help to avoid the introduction of '… options such as death duties' (Kelton 1998b:1).

Early polling of public reaction to the sale by two television stations indicated strong opposition to the sale. Around 92 percent of 3106 callers to a Channel 7 television poll were opposed to the sale and around 87 percent of 3688 callers to a Channel 9 television poll were opposed (SAPD HA 19 February 1998). This high level of public opposition would be sustained throughout the course of the ETSA sale debate. Polls commissioned by *The Advertiser* newspaper in Adelaide on February 25th and July 1st 1998 indicated that 56 percent of those polled thought that the privatisation of ETSA was a 'bad thing' while around 24 percent thought that it was a 'good thing' (Newspoll 1998:4).

The State Government's campaign to sell ETSA was damaged by news on 20 February 1998, of a blackout in Auckland, New Zealand. The blackout forced the closure of industry and services throughout the city (Dunbar 1998:1). It was widely believed that the blackout was ultimately caused by the consequences of privatisation even though the Auckland electricity system, Mercury Energy was publicly owned (Wood 1998:13). As the news broke in South Australia the crisis raised fears in the community that privatisation of ETSA would result in a similar outcome. The obvious parallel between the electricity industries in South Australia and Auckland was that they were both corporatised and substantial downsizing of the workforces had taken place in both utilities. Mercury Energy had halved its workforce over the three years to 1998 (ibid:1).

While the early focus of the State Government's sale arguments were upon risks associated with keeping the utility in public ownership, the Government turned to selling the benefits of the sale to different constituencies. At a business luncheon attended by over 400 business people, the Premier outlined a number of priority areas for new expenditure if ETSA were sold. He indicated that if the sale went ahead the Government would provide funds for a new emergency services radio communications network, additional computers for schools and a cap on school fees (Kelton 1998c:12). A carrot and stick approach characterized the Premier's speech. While offering the prospect of new funding for public services, he also warned that the assets must be sold quickly. In particular he suggested that the value of South Australia's electricity assets would be significantly reduced if the

assets were not put on the market before New South Wales power assets were. While NSW Premier Bob Carr and Treasurer, Michael Egan advocated the sale of NSW power assets the proposal had been blocked by the wider Labor Party and unions (Abraham 1998:6). The financial benefits of the sale were also a key feature of the Premier's argument. He claimed that the sale of ETSA and Optima would result in an improvement in South Australia's credit rating, leading to '… savings of millions of dollars in interest payments' (ibid:12). The veracity of this claim is analysed later.

Just one week after it announced it would sell ETSA, the State Government embarked on a substantial publicity campaign to generate support for its decision. On 21 March 1998, the Premier argued the Government's case for the sale on prime time television. This was part of a $330,000 pro-sale campaign, nicknamed 'Project Crocodile' (Coorey 1998c:4). The campaign included a leaflet to all South Australian households, newspaper advertisements and an information hotline. It focused largely on the risks of retaining ETSA in public ownership with the Premier, John Olsen echoing a variation of Margaret Thatcher's famous dictum 'There is no alternative' (ibid:4).

There were soon challenges to the Government's claims about the level of risk associated with ETSA under public ownership. The Government's initial justification for changing its position was drawn from the 1997 Annual Report of the Auditor General, tabled in State Parliament on 2 December 1997. Central to the Government's arguments was a claim that the Auditor General indicated that the State risked losing $1 billion in competition policy payments if reforms to the electricity industry were found to not conform to National Competition Policy (NCP). The Government claimed that advice about such risks was not available prior to the 1997 State election. It is evident, however, that some of the Premier's closest advisors had access to a draft copy of the Annual Report at least six months before the State Government announced its decision to sell ETSA. In particular the draft report was forwarded to the Head of Premier and Cabinet, Ian Kowalick in July, 1997 (Turner, Kelton, Coorey and Penberthy 25 February 1998:19). Indeed the draft report was circulated to at least seven agencies at this time, according to the Auditor General, Ken McPherson (Rann SAPD HA 26 May 1998). The Premier claimed that he had no prior knowledge of the Auditor General's report until it was released. He indicated that he had not been advised of the contents of the report by Ian Kowalick (Turner et al 25 February 1998:19). Kowalick subsequently became the focus of attention with a number of

commentators questioning his competence and asking why he didn't inform the Premier about the contents of the Auditor Generals report if the risks were of such importance to the State. One journalist declared that:

> The whole energy sale process, and the merits or otherwise of it, are now clouded by just what the Premier, Mr Olsen, and (other) minister(s) (were) told before the State election. There can be no escape for the Government on this issue. To claim there is an unwritten convention is a nonsense – especially when billions of dollars are at stake. Any such convention should be thrown out forthwith. As Don Dunstan said, he would have had the head on a platter of any public servant who did not keep him fully informed of any looming problems within the public sector. …They must be asking how a problem which had been described as being of State Bank proportions could not be brought to the attention of the Premier, or, at the very least, to the attention of the minister in charge. It would be extraordinary if the chief accountant of a private company was told of a possible major financial crisis and did not tell his managing director until five months later.
>
> (Kelton 1998d:4)

Whatever the veracity of the Premier's claims, it is implausible that senior members of the State Government were not aware of the risks associated with non-compliance with NCP. These risks were widely known by the end of 1998. Indeed the Auditor General, Ken McPherson had drawn attention to such risks as early as 1996 in his Annual Report (*SA Parliament Economic and Finance Committee*, 23 February, 1998:34). He acknowledged that information about the potential risks related to non-compliance with NCP would have been widely available a number of years prior to the release of his 1997 Annual Report (ibid:37).

The question of whether or not the State Government had prior knowledge of the issues raised in the Auditor General's 1997 Report obscures more critical issues relating to the extent to which the risks identified were a legitimate basis for the Government's decision to sell ETSA. The Auditor General's 1997 report indicated that there was no threat to competition policy payments given that requirements specified under NCP had been met in order to activate the first payment.

As well as claiming that retaining ETSA in public ownership would risk the loss of competition payments the Premier argued that the value of ETSA would fall dramatically if it were not sold very soon. He based his claim on a secret study undertaken by a

consortium of consultants including Troughton Swier and Associates, CS First Boston and KPMG. He told Parliament that '… independent research … states that the value of our power assets could drop by up to 50 per cent' (Coorey 1998d:2). This claim was based on the assumption that the New South Wales government might sell the publicly owned electricity industry assets in that state and that this would reduce the likely sale price of ETSA. While it was evident that discussions about the privatisation of electricity assets had been undertaken within the New South Wales government, it had not indicated that it would proceed with a privatisation program.

The Premier raised the stakes in the ETSA sale debate on 15 March 1998 when he warned that a $183 levy would be imposed on the top of existing electricity bills if ETSA was not sold (The Advertiser 1998b:16). He blamed this on the Labor Party's opposition to the sale and linked the levy directly to the Labor Opposition Leader by calling it a 'Rann tax'.

The divergent reactions within the community to the privatisation decision set the tone of the debate to come. Business and electricity industry interests backed the proposal while unions, community organisations, the Labor Opposition and the wider community largely opposed it.

The public debate reflected differing class interests with large corporate interests including key media outlets supporting privatisation and unions and various community organisations opposing it. The most vocal opponents of the sale included unions, the Labor Opposition, the Australian Democrats and some academic and expert commentators. Supporters of the sale included a number of the State's largest corporations, the Chamber of Commerce and Industry, *The Advertiser* - the only daily newspaper and the *Sunday Mail*, electricity industry consultants and a number of academics and commentators. These views are examined in more detail in the following sections.

The Media

While media coverage of the ETSA sale debate included representation of a range of perspectives, opposing viewpoints were largely absent from Adelaide's only daily newspaper, *The Advertiser*. The Rupert Murdoch owned newspaper was a strong and influential supporter of the sale proposal through its feature articles and editorials. It was

able to exercise considerable influence over the shape of the public debate by actively supporting the Government's position and limiting coverage of opposing viewpoints. Regular opinion columns by neo-liberal economist Cliff Walsh reinforced this bias, though *The Advertiser* did commission three alternative perspectives written by the author. It also published numerous letters to the editor, which opposed the sale (see for example *The Advertiser* 1 July 1998:19).

It is evident that *The Advertiser* was reluctant to give prominence to perspectives that opposed the ETSA sale and it downplayed the depth of community opposition to privatisation it found through its own polling. A July 1998 poll commissioned by *The Advertiser* found that '… only one in four South Australians supports selling ETSA and Optima' (Wheatley and Crabb 4 July 1998:26). A second poll undertaken in March 1999 indicated that the State Government had suffered a 4 percent fall in its primary vote over a month, due largely to it's decision to sell ETSA (Kemp 11 March 1999:21). The results of both of these polls appeared towards the back of the newspaper.

Rarely did articles in *The Advertiser* challenge the Government's position. The Government's arguments were generally accepted without question as the following example illustrates.

> With ETSA and Optima facing a significant loss of market share and a subsequent plunge in profits from cheaper interstate competitors, the Government was powerless to protect the viability of the taxpayer owned corporations.
>
> (Coorey 18 February 1998:19)

Just two days before the Government introduced legislation for the sale of electricity assets the stance of *The Advertiser* on the proposed sale was made clear in its Editorial on March 16 1998. It unequivocally supported the Government's position while ridiculing those who opposed the sale:

> An ETSA sale will reduce State Debt and wipe aside any need for the extra tax. The Government promises to use $1 billion of sale profit to create jobs, investing in projects across the State. It is an exciting landscape which this newspaper both supports and undertakes to keenly monitor. The no-sale brigade's argument, pushed by the Opposition Leader, Mr Rann, and swinging in the Upper House on the whim of the No Pokies sole representative, lacks detail and incentive. … The

> days of owning a public utility because it suits some back-pond of political thought have long expired. What does Mr Rann have to answer the Olsen plan, in job creation and boosting community wealth.
>
> (*The Advertiser* 3 March 1998:16)

A further four editorials in *The Advertiser* between late November 1998 and early March 1999 strongly supported the Government's sale campaign. The first on 18 November 1998 included strident criticism of No Pokies MP, Nick Xenophon. It advocates a trade sale rather than a lease, which had emerged as an option. Opposition to the concept by MPs Nick Xenophon and Terry Cameron attracted the following criticism by *The Advertiser*.

> Cost of two State parliamentarians: generous salary + lavish superannuation + $1500 million. Repeat, $1.5 billion. This would be the bill if the Legislative councillors, No Pokies Independent Mr Nick Xenophon and Independent Mr Terry Cameron, have their way and if the Parliament spinelessly caves into them. Having the effrontery to think they have the right to dictate to the Government, it is suggested these Independents would support disposal of the electricity sector – a privatisation – on the basis of a lease instead of a sale. ….These two MPs should vote for a sale as, indeed, should the Labor Party and the Australian Democrats. If they will not do so, the Olsen Government should force the issue. Take Parliament to the wire. The Government should govern which, in this case, means sign a contract for the sale and be done with it. Do not put a sale contract on the table in Parliament: slam it down with great force. By accepting a lease the Parliament would not be cleverly adroit. It would be capitulating, quite literally selling out the interests of the electorate.
>
> (*The Advertiser* November 5 1998:15)

A further editorial on 29 January 1999 reinforced *The Advertiser's* strong support for privatisation. It stated that 'We do not resile. From the start of this controversy, we have made no secret of our support of energy asset sales out of sheer budgetary necessity (*The Advertiser* 29 January 1999:16). It repeated this position again on March 2 1999 (*The Advertiser* 2 March 1999:16).

In advocating the sale of ETSA, *The Advertiser* was aware that there was little support in the community for the Government's proposal. As outlined earlier its own polling confirmed how unpopular the proposed sale was. The magnitude of opposition within the community is likely to have placed some pressure on *The Advertiser* to seek a number of alternative perspectives (Spoehr 1 July, 13 September 13 1998). Complaints to *The*

Advertiser from readers regarding coverage of the issue are likely to have forced their hand (Weidenhoffer 7 July 1998:16; Richardson 7 July 1998:16).

Business Interests

While not uniformly in favor of the ETSA sale proposal, sections of the business community were among the most vocal and active supporters of privatisation. This support was concentrated among South Australia's largest and most influential businesses while opposition was voiced by a number of small businesses. The arguments put forward by business people largely reflected those of the State Government. A range of claims was made about the benefits of the sale including the prospect of lower electricity costs, reduced risks to government and State debt reduction.

Among the early supporters of the sale was the Housing Industry Association State chief executive, John Gaffney, Adelaide Bank MD, Barry Fitzpatrick and SA Employers Chamber General Manager, Ian Harrison. The Executive Director of the Small Business Association, John Brownsea appeared reluctant to offer support, stating that he was 'uneasy' about the sale. He questioned the Premier's rationale and the motivation for the sale asking, 'Are things so bad he is moving into a fire sale? He must've known before the election he was going to break the promise – or what had he found out since then?' (Hurrell 20 February 1998:6).

In the week following the introduction of legislation into the State Parliament to sell ETSA, a group of 16 prominent South Australian business leaders paid for a full page advertisement in *The Advertiser* advocating the sale of the South Australian electricity industry. The advertisement was endorsed by influential local business figures including Rick Allert, Chairperson, Southcorp Ltd., Barry Fitzpatrick, Group Managing Director, Adelaide Bank, Lindsay Thompson, CEO, South Australian Employers Chamber of Commerce and Industry, Bill Cooper, Managing Director, Coopers Brewery, Robert Gerard, Chairperson, Gerard Industries and John Michell, Managing Director, G.H. Michell and Sons and Professor Cliff Walsh, Director of the SA Centre for Economic Studies.

The open letter provided unequivocal support for the sale, repeating the State Government's claims about the necessity of reducing both risk and state debt (Allert et al 28 March 1998:27). It was followed in August 1998 by a series of full-page advertisements in *The Advertiser* by a group of twelve anonymous business people. The group was led by Nigel Winter, a prominent Adelaide lawyer and Liberal Party candidate. The advertisements attacked the Labor Party's opposition to the sale attracting a strong response from Opposition Leader, Mike Rann (Coorey 10 August 1998:5).

This approach continued, with three of those involved in the March 1998 open letter outlining their views in a prominent article in *The Advertiser* in August 1998. On this occasion they rejected calls by Independent MP Nick Xenophon and the Democrats for a referendum to decide the issue. They also strongly criticised the ALP and the Australian Democrats for their opposition to the sale (Starick 13 August 1998:7).

It was not only local business interests that supported the privatisation of ETSA. A number of foreign-based firms with vested interests in privatisation, adopted a particularly strong position. Graham Dooley, managing director of United Utilities, a British based electricity firm warned that publicly owned electricity utilities would soon become '… a millstone around the neck of the State Government.' He argued that the assets would require a constant top-up of funds or increased electricity prices to remain viable. In his view government was incapable of running the electricity industry efficiently because they 'were motivated by political expediency and were unable to implement the efficiency and management reforms required. His private sector utility on the other hand knew 'how to take a government electricity business and introduce the drivers that make it perform'. He claimed that the sale of the assets would result in an improvement in the State's financial position, which he regarded as in an, '… awful mess' (Coorey 18 September 1998:27).

There appeared to be no shortage of foreign firms interested in purchasing ETSA. United Utilities, the British parent company of North West Water Australia was among the first to express its interest. It offered to buy ETSA Corporation for $1.5 billion (Starick 18 February 1998:4). In October 1998 the US based electricity business, GPU International publicly declared its interest in a long-term lease of the assets (Coorey 27 October 1998:11).

The State's largest corporations were often willing to play a very public role in supporting the case for privatisation. In a move that bolstered the Government's claims about increased risks associated with competition in the NEM, Western Mining Corporation (WMC) announced that it was seeking an alternative provider to ETSA in its search for cheaper power (Morgan 10 December 1998:6). WMC later announced that it would cancel its contract with ETSA after negotiating a more favourable contract with Yallourn Energy in Victoria. The Treasurer, Rob Lucas regarded this as proof that ETSA would not be able to '… compete against private sector operators' and he '… warned ETSA would lose further customers with about 160 of the biggest companies now searching for alternative sources' (*The Advertiser* 2 March 1999:16).

After the State Government failed in early 1999 to secure the numbers it required to pass the ETSA privatisation legislation through the Upper House, a range of prominent local business people applied considerable political pressure on MP's opposing the sale. A group of high profile business people paid for a full-page advertisement in *The Advertiser* claiming that 'taxes will rise, business will leave… (and) jobs will go …' if the sale does not go ahead (Kemp 24 April 1998:11). The group included some of South Australia's most influential business people, a number with close connections to the Liberal Party. The group included Rick Allert, Southcorp Ltd Chairperson, Graham Kraehe, Southcorp Managing Director, Robert Gerrard, Chairperson, Gerrard Industries and former Liberal Party President, Barry Fitzpatrick, Adelaide Bank Managing Director and John Pedrigh, Chairperson of BRL Hardy.

Unions and community organisations

The United Trades and Labor Council (UTLC) of South Australia and its affiliates opposed the privatisation of ETSA. Those unions with members in the electricity industry sent a warning to the Australian Democrats, threatening to '… withdraw political support and donations … if they refuse to join the Labor Party in blocking the sale legislation' (Foster 19 February 1998:7). Electricity industry unions also threatened industrial action if assurances from the government guaranteeing that there would be no forced redundancies, were not provided (ibid:7).

The UTLC commissioned economist John Quiggin and the author (Quiggin and Spoehr 1998) to undertake a fiscal analysis of the likely impact of the privatisation of ETSA discussed in the following section. The Labor Opposition and the Australian Democrats in their arguments against privatisation in the South Australian Parliament drew upon the report. Throughout the ETSA debate unions were actively lobbying State Members of Parliament to oppose privatisation.

Community organisations outlined a range of early concerns about the proposed sale. The Executive Director of the SA Council of Social Service (SACOSS), Mark Henley said that there was '… real evidence that privatisation does in fact provide efficiency benefits' (ibid:7). SACOSS was concerned that privatisation would undermine the revenue base of the State (ibid:7).

Academics

A number of local and national academics and right wing 'think tanks' provided strong support for the sale of ETSA. Shortly after the 1997 State election the Institute of Public Affairs claimed that the sale would '… avoid exposing taxpayers to the significant financial risks of entering the national electricity market' (Coorey 23 December 1997:15). They claimed that the State would make more than $4 billion from the sale and that this would halve State debt.

Early support for privatisation of ETSA was also provided by a number of academics associated with the SA Centre for Economic Studies (SACES). The SACES comprises a small number of economists from Adelaide and Flinders Universities. The most prominent of these during the ETSA debate was Professor Cliff Walsh, Director of SACES. He was a member of the Government's 'Commission of Audit' and an advisor to Premier, John Olsen. Walsh was also a former advisor to the Federal Liberal Government of Prime Minister, Malcolm Fraser (Broomhill and Spoehr 1995:15-19). His views were made prominent through regular media commentary and a weekly column in *The Advertiser*. Walsh argued '… that it would be worth it (selling ETSA) even if it made a negligible contribution (to reducing state debt) because what we're doing is finally offloading some highly risky assets' (Starick 18 February 1998:4). He backed the sale of other public

enterprises as well, suggesting that they were assets '… which on the face of it you wouldn't have in the public sector if you were asked to buy them today' (ibid:4).

Professor Graham Scott, Deputy Director of SACES, also provided strong support for the sale. Writing in *The Advertiser* he welcomed the Government's decision arguing that taxpayers would be exposed to excessive risks by South Australia's entry into the NEM, if the electricity assets remained in public ownership (Scott 18 February 1998:19). He accepted the Olsen Government's position arguing that:

> … From the State Government's point of view, the danger is that the new competitive market may result in lower prices that will drastically reduce the market value of our electricity assets. If we delay a sale even further, and the price we receive falls by, say, $1 billion, we not only lose our ability to repay $1 billion of debt, we also suffer the consequences of interest payments that higher by something like $50 million to $60 million a year. Governments that own and operate assets of the magnitude of ETSA/Optima are committing taxpayers to risks that they should not and need not accept. While recognising the risks, the SA Government has been torn between the attraction of a major reduction in State debt and giving up an important source of revenue. As taxpayers, we should be thankful that the National Competition Policy has forced our State Government to reconsider. We will be the major beneficiaries of the decision to sell.

An analysis of the fiscal impact of the privatisation of ETSA by John Quiggin and the author (Quiggin and Spoehr 1998) argued that the risks associated with retaining ETSA in public ownership were overstated as were the financial benefits claimed to flow from privatisation. Both Quiggin and I played a prominent role as commentators on the impact of privatisation. At an early stage in the ETSA debate there were attempts within the University of Adelaide to prevent me from contributing to the debate. Professor Cliff Walsh, a strong public supporter of privatisation and member of the Liberal Government's South Australian Commission of Audit approached the Vice Chancellor of the University of Adelaide to ask me what credentials I had for commenting on privatisation. While the Vice Chancellor sought some background on my involvement in the debate, he took no action to prevent me from contributing further to it.

An investigation of the views and actions of agents involved at the earliest stages of the ETSA privatisation debate reveals the emergence of a struggle for control of the electricity industry. The proposal to privatise ETSA was hotly contested by a range of agents who sought to influence the course of the debate and the outcome. The heavy engagement in

the debate by key business, union, community, academic and media figures suggested that both sides of the debate believed that they could influence the outcome. As we shall see in the following sections, the interventions of different agents in a struggle for control of South Australia's electricity industry made the outcome a difficult one to predict.

6.4 The Parliamentary Debate

The State Government wasted little time testing its sale proposal in State Parliament. It introduced legislation into the Parliament to privatise ETSA on 18 March 1998 and was immediately confronted by the reality that it would have to secure additional support in the Legislative Council to pass the sale legislation. To succeed the Government needed to either win the support of the Australian Democrats and Independent No Pokies MP, Nick Xenophon, or failing this, persuade two Labor members to defect. These options seemed implausible at the time. Initially it appeared that opposition to the sale by the Australian Democrats would thwart the government's objectives if, as appeared likely, that Nick Xenophon also rejected the sale legislation.

To bolster its case for the sale, the State Government commissioned former State Auditor General, Tom Sheridan to provide a report on the fiscal impact of the sale. The findings of his report were made public on 22 March 1998. Sheridan argued that 'combined sale prices in excess of $4 billion could well have a significant favorable net impact on the State Budget (Sheridan 1998:8). He claimed that a $4 billion sale price would produce net budgetary savings of $29 million and a $6 billion sale price would produce savings of around $148 million. If the sale did not go ahead he warned that the State Budget would '… blow out by up to $123 million in four years ...' (Coorey 1998e:2). Sheridan indicated that he did not undertake an independent analysis of the likely impact of the proposed sale. Indeed he indicated that his conclusions were derived from work undertaken by Treasury, the Auditor General and by the consortium of consultants engaged by the State Government including Troughton Swier and Associates. He acknowledged that he had '... not been able to undertake separate assessments or to test the veracity of factual information obtained from these sources' (Sheridan 1998:i).

Drawing from the Sheridan report the Government's financial argument for the sale was often reduced to one simple claim, that the sale of ETSA would eliminate the estimated $2 million in interest per day that was currently being paid on State debt. This claim was repeated regularly throughout the ETSA sale debate. It did not go unchallenged however.

There were a number of significant challenges to the State Government's financial arguments and to Tom Sheridan's report in particular. One of the more informed of these challenges came from a former General Manager of ETSA, Bruce Dinham. In a letter to the Editor of *The Advertiser* he argued that privatisation would result in increased electricity prices and the likelihood of increased taxes to compensate for the loss of revenue from ETSA. Dinham argued that:

> If you believe what we have been told so far, our Premier John Olsen is going to sell ETSA, pay the State debt and save $2 million a day in interest charges. This can then be spent on a marvelous wish list of goodies for us all. Sounds too good to be true, which, if you stop to think about it for a few minutes, it is. The reality would be that a private company, whose main object in life is to make as much profit as possible, having paid all those billions of dollars, would be looking for a return (ie profit) on that money of at least $2 million a day. And where would that come from? Well, there would be only one source – out of our pockets via electricity accounts. But wait, private companies have to pay federal income tax, which ETSA does not. So to clear $2 million for themselves, the company would have to collect $3 million from us. Instead of paying $2 million a day in State taxes for interest, we shall now be paying $3 million on our electricity bills. But we are saving $2 million in taxes. And pigs might fly, too, because where else is John going to get the money for that wish list? Yes, you've guessed, he will still want to collect the $2 million a day in taxes. So the result of selling ETSA will be that instead of paying $2 million a day we shall all end up paying $5 million - $2 million for John, $2 million for company profits and $1 million for Mr Howard. Jolly good, it takes a smart politician to think up an idea like that and try to put it over us. Please John, don't try to sell any more profitable, publicly owned assets, if we have any left. We just can't afford it.
>
> (Dinham 1998:16)

The United Trades and Labor Council of South Australia and a number of unions concerned about the proposed sale of ETSA commissioned the University of Adelaide, Centre for Labour Research to analyse the Sheridan report and provide a critique of the Government's sale arguments (Quiggin and Spoehr 1998). The report reviewed arguments surrounding the level of risk associated with continued public ownership and provided an alternative analysis of the likely fiscal impact of the sale It report found that Sheridan had

failed to include retained earnings in the calculation of total earnings of the enterprise. This resulted in an underestimation of earnings and under-valuation of the assets. Correcting for the omission of retained earnings indicated that a sale price in excess of $7 billion was necessary to break even. When these claims were released in April 1998 they received considerable publicity, attracting strong criticism from the Treasurer who attempted to discredit the authors of the report by claiming their analysis was '… full of errors and inaccuracies' (Lucas 29 April 1998). Specifically he claimed that the fiscal analysis was flawed because it failed to take account of the abolition of the statutory sales levy on ETSA. The analysis did in fact take account of this matter (ibid:17). The report also reviewed the Government's arguments concerning the level of risk to which taxpayers were allegedly exposed. In line with the Auditor General's conclusions regarding risk, the report indicated that there was no specific risk to the loss of competition payments and the risks of participation in the NEM were manageable.

The State Government wasted no time appointing a team of advisers to support the sale process. The favored consortium included CS First Boston, KPMG and Troughton Swier and Associates (Coorey 1998f:29). They had advised the Victorian Government of Jeff Kennett on the breakup of the Victorian electricity industry and had provided recent advice to the South Australian government on future options for the South Australian electricity industry. Another group favored to win the contract was a consortium led by merchant banks Beston Pacific JP Morgan. Former Liberal Government State Treasurer, Stephen Baker assisted with the preparation of their bid. Also in contention were a consortium involving Morgan Stanley International a New York investment bank, Putnam Hayes and Bartlett a US based management consultancy and Pacific Road Corporate Finance, an Australian firm based in Sydney (ibid:29). The contract to manage the ETSA sale was ultimately awarded to the US based Morgan Stanley consortium.

Soon after the consultants were appointed, it appeared that the Government would struggle to secure the votes it needed to secure the passage of the necessary privatisation legislation through the Legislative Council. In particular the Australian Democrats indicated that they were not likely to support the sale of ETSA. In a detailed response to the Government, the Democrats refuted the Government's claims about the risks associated with competition payments and entry to the NEM.

> The privatisation of ETSA and Optima are not required to qualify for competition payments. It is only necessary that SA enter the National Electricity Market, undertake electricity retail reforms and separate electricity generation from transmission and distribution. This has been confirmed by the authorities charged with overseeing the implementation of competition policy. There is no case for privatisation on the grounds of losing competition payments.
>
> (Kanck 1998:9)

The Democrats refuted the Government's claim that a sale price of $4 billion would result in a net financial benefit to the State Budget. Drawing from Quiggin and Spoehr (1998:9) they argued that it was necessary for the State Government to obtain at least $7 billion in order for there to be a net financial benefit to the State Budget (ibid:9).

Like the Australian Democrats the Labor Party argued that there was no imperative arising from the NCP and the NEM to sell ETSA (Rann 1998:19). Opposition Leader, Mike Rann argued that there would be significant losses flowing from privatisation, particularly the loss of revenue flowing from ETSA to the State Budget.

> Let's remember that in selling ETSA, we would be selling a profitable business that generated more than $775 million profit for State taxpayers over the past four years. ETSA has brought in over $700,000 a day, money that helps pay for schools, hospitals and police. Selling ETSA means SA loses that income stream. The money will go to all the new owners, most likely overseas, at the very least interstate. Mr Olsen says that the income stream would fall in the new national electricity market when we have full competition. … Leaked papers from ETSA and Optima reveal that both organisations have forecast that they can continue to trade profitably in a deregulated electricity market.
>
> (Rann 1998a:19)

The Australian Democrats formally outlined their opposition to the sale of ETSA on 25 June 1998. Deputy Leader of the Democrats, Sandra Kanck argued that the State Government's sale case was based on '… deception, exaggeration and rubbery figures' (Kanck cited in Evans 1998:5). While they gained some support for their position from a key Lower House independent MP, Rory McEwen they were heavily criticised by Professor Cliff Walsh and the Chamber of Commerce and Industry (Kelton and Coorey 1998a:1). Their decision shifted the focus of public attention to Nick Xenophon, on whose vote the ETSA sale proposal now depended upon.

The ETSA sale debate moved into more difficult terrain for the State Government, when the Deputy Premier, Graham Ingerson was forced to resign after being found guilty by the Privileges Committee of State Parliament, of misleading State Parliament in relation to his knowledge of the $96 million write down of ETSA. Under increasing pressure from Labor, the Democrats and Independents, he was forced to resign to avoid a no-confidence motion being successfully moved against him in Parliament (Crabb and Coorey 1998:7). Importantly this decision appears to have been heavily influenced by No Pokies MP Nick Xenophon's public announcement a few days earlier that he would, '… find it difficult to support the sale of ETSA unless the Premier acts on the findings …' of the Privileges Committee investigation into Ingerson (ibid:7).

With an impasse created by the rejection of the sale by the Democrats, the Government announced that it was considering the possibility of holding a referendum on the sale proposal if the legislation continued to be blocked in the Upper House. It appeared highly unlikely that the Government would pursue this given widespread community opposition to the sale of ETSA at the time. The main motivation for proposing a referendum appears to be an attempt to influence Nick Xenophon, who had initially proposed the idea of a referendum, but was yet to announce his final position regarding the sale.

The State Government released a detailed plan for the sale of ETSA on 30 June 1998. The plan included a '… commitment to a 5 year freeze on average consumer prices, environmental standards for power generators and job protection for electricity workers' (Kelton and Coorey 1998b:1). It also made provision for the separation of various ETSA functions, including the division of Optima into three generating companies and the division of ETSA into generation, distribution and retail companies (ibid:1).

Just as Nick Xenophon prepared to announce his position on the ETSA sale, Labor Member of the Legislative Council, Terry Cameron gave an early indication that he was sympathetic to the Government's sale proposal. In a lengthy speech in Parliament on 23 July 1998, Cameron stated that '… it would be in the best interests of South Australia and its people for ETSA to be sold' (Cameron SAPD LC 23 July 1998). He argued that there must be particularly 'compelling reasons' for the sale of ETSA given that the Labor NSW government was considering privatisation of its electricity industry (ibid). The likelihood of Terry Cameron voting with the Government to support the sale of ETSA appeared

remote, particularly given that it would result in his expulsion from the Labor party. While the political stakes were high for Cameron, it appears that personal political grievances may have motivated him to support privatisation as Parkin (1999:284) argues:

> Cameron was no ordinary Labor backbencher. He was the party's former State Secretary, the son of former Senator Don Cameron and the nephew of Labor stalwart Clyde Cameron. It has also been widely reported that there is a deep personal divide between Terry Cameron and Opposition Leader Mike Rann, that they had not spoken to each other since the October 1997 election and that Cameron was disappointed about being omitted from Rann's Shadow Cabinet.

As events unfolded, Cameron's determination to support the sale became clear. On August 5, 1998 he said that he was '… prepared to be expelled from the party and cross the floor to vote for the ETSA sale'. Furthermore he regarded the sale of ETSA as '… the most important facing the state in his lifetime' (Coorey 1998:2). On August 11, Cameron proclaimed his support for the sale, arguing that after the Labor Party won the next election it would '… inherit a nightmare if ETSA is not sold' (Coorey and Kemp 1998:7). Comments that same day by MLC Trevor Crothers indicated that Terry Cameron was not the only Labor MP willing to support the sale of ETSA. Crothers indicated that '… he would have had considerable difficulty not supporting the sale of ETSA' if Premier Olsen had declared the Government's support for the sale of ETSA prior to the 1997 election.

The significance of Terry Cameron's decision to support the sale increased when No Pokies MP, Nick Xenophon announced that he would oppose the sale unless a referendum were held on the issue (ibid:2). This shifted the focus onto Trevor Crothers. As indicated earlier, the Government was unlikely to support a referendum given widespread community opposition to the sale. In this situation the Government needed the support of Crothers to pass its sale legislation. While Trevor Crothers had indicated that he would have supported the sale of ETSA if the Government had announced its intention to do so prior to the 1997 State election, it seemed unlikely that he would provide the Government with the support it needed.

On August 20, 1998 Terry Cameron crossed the floor to support the Second Reading of the Government's Bill for the sale ETSA. Having broken party rules binding all ALP members

of Parliament to support majority positions, he had no choice but to resign or be expelled. He chose to resign.

The Government re-visited the option of leasing the assets in an effort to secure the support it needed. This option had been rejected by the Premier who argued that it would result in a discount of around 20 per cent on the sale proceeds. The Premier changed his mind after an overseas trip to promote the sale of assets. He now claimed that he had advice that the proceeds from a lease would be similar to a trade sale. He argued that 'It would be fair to say, given the advice we had earlier this year, that (the lease discount) might be in the 20 to 25 per cent category, this is not the case, and every one of the potential investors I spoke to indicated that to me' (Abraham 1998b:9). Consideration of a lease rather than a trade sale appeared to be an attempt by the Government to achieve privatisation via different means, a point noted by Opposition Treasury Spokesperson, Kevin Foley who argued that earlier claims about a mark-down on the likely proceeds from the assets '… disappeared just at the time as it appears the Government will not be able to get its sale through parliament' (ibid:9).

Facing possible defeat on the legislation the Government intensified its sale campaign by warning that it would be forced to consider increases in state taxes and budget cuts if the sale did not proceed. The Treasurer, Rob Lucas argued that there was increased pressure on the State Budget arising from the risk that interest rates may rise, which would increase State debt repayments (Coorey 1998e:2).

It became increasingly clear that Nick Xenophon was not going to support the Government unless it agreed to reforms to the generation sector of the electricity industry in South Australia. Xenophon was critical of the Government for choosing to support the construction of a new power station at Pelican Point rather than the establishment of an interconnector between South Australia and New South Wales (ibid:2). He argued that this would help to increase competition in the South Australian electricity market and ensure greater security of supply. The Government appeared reluctant to support the interconnector because of concerns that the link might reduce the value of South Australian generators.

On October 26 Nick Xenophon indicated that his support for a lease would be conditional on the Government holding a referendum on the issue. The State Government rejected the suggestion of a referendum. A long-term lease option was opposed by the Labor Opposition, Australian Democrats and No Pokies MP, Nick Xenophon. Nick Xenophon indicated that he would support a short-term lease of up to 25 years. He regarded a longer-term lease as '… a defacto sale' (ibid:2; Coorey 1998f:11; Kemp 1998:2).

At this point in the debate *The Advertiser* newspaper launched an attack on proponents of a lease suggesting that the Government should ignore the will of Parliament and proceed with a trade sale (Editorial, 5 November 1998:15). This intervention by *The Advertiser* is illustrative of growing frustration that the privatisation of ETSA might be blocked. *The Advertiser* and key business leaders from some of South Australia's largest companies joined forces to apply intense pressure on key MPs to support privatisation. Nick Xenophon was the focus of a great deal of their attention.

The prospect of support for a lease from Nick Xenophon evaporated on December 8 1998 when he declared that he had 'lost faith' in the Government. He rejected the lease arguing that the State Government would get more from supporting the establishment of the 'Riverlink' interconnector with NSW than it would get from the sale of ETSA (Abraham 1998c:1). The Premier strongly criticised Nick Xenophon's decision indicating that the Government would consider '… cuts to essential services, increases in taxes and charges or running the Budget at a deficit' (ibid:1). The SA Centre for Economic Studies also criticised the decision arguing that the sale was necessary 'to address the still very high level of debt that this State has' (ibid:1). A number of key organisations welcomed the decision including the United Trades and Labor Council of SA and the SA Consumers Association whose representative, Ron Shanks stated that 'we do not believe you have to sell your soul. One of the big problems with the ETSA sale or lease is a lot of detail had been in commercial confidence … Its not possible for people who aren't involved to make truly objective decisions' (Eccles and Crabb 1998:7).

The decision by Nick Xenophon created one major rupture in the otherwise solid business support base provided to the Government. A key business figure, Ian Webber, director of the mining companies Western Mining Corporation (WMC) and Santos indicated that he '… reluctantly' supported Xenophon's decision and that there were 'reasons for concern'

and ‘issues that need to be addressed in much greater depth’ (ibid, p 7). Access to cheaper power may have been uppermost in his mind as comments the following day from his colleague, WMC Executive, Terry Dwyer indicated. Dwyer said that WMC was considering building its own power station or purchasing power from Victoria (Morgan 1998:6).

The Government’s attempts to bolster support for the sale were once again supported by *The Advertiser*, which ran an editorial stating its ‘support of energy asset sales out of sheer budgetary necessity’ (Editorial, *The Advertiser* 1998:16). In a further attempt to win support for the sale, the Government backed away from its earlier commitment to use all of the proceeds from the sale to pay off debt. On 28 January 1998 the Premier announced that the Government would establish a $1 billion ETSA Reinvestment Fund, using part of the proceeds of a sale or lease to fund new projects. These projects were to be in politically sensitive areas such as job creation, education, the environment and hospitals. This strategy had the potential to backfire given the Government’s claim that debt reduction was central to its privatisation strategy. This shift appeared to be designed to win Trevor Crothers support for the sale, as he had not yet declared his position. The strategy did however undermine the Government’s earlier arguments that the sale was essential to reduce State debt. A number of key independents holding the balance of power in the House of Assembly were quick to reject the fund, arguing that the Government must deliver on its earlier commitment to use the proceeds of any sale to reduce public debt (Kemp 1999a:5).

Ironically, in an attempt to build support for the sale within the Legislative Council the Government risked losing support in the House of Assembly. Under these circumstances the ETSA Reinvestment Fund was not a viable strategy. Realising this, the Government shifted its focus back to the risks it argued were associated with retaining ETSA in public ownership. Premier Olsen suggested that the market was about to be flooded with the sale of NSW electricity assets after the NSW State election. He argued that this would significantly reduce the proceeds from the sale of ETSA (Crabb 1999:10). He warned that this would enable the NSW Government to use the proceeds from the sale to improve its competitive position relative to South Australia by reducing business taxes and costs (ibid:10). By the end of 1998 it appeared that there was no prospect for the privatisation of the industry in NSW unless the Labor Party were defeated at the March 1999 State election. After failing to secure the support he needed from the NSW Labor Party for

privatisation, Premier Bob Carr had no choice but to oppose privatisation in the lead up to the State election (The Daily Telegraph 1998:4).

The Olsen Government turned to another facet of its argument about the risks associated with a publicly owned ETSA when Western Mining Corporation announced that it had signed a contract for electricity with Yallourn Energy in Victoria (Kemp 1999b:4). The Treasurer, Rob Lucas seized on this, arguing that it was an example of the risks associated with the emerging NEM and that ETSA was set to lose further major contracts in the new market. He argued that the loss of the WMC contract to ETSA was '… proof that ETSA could not compete against private sector operators' and he '… warned that … ETSA would lose further customers' if the sale did not go ahead (ibid:4). The Treasurer provided no evidence that other major companies would follow WMC at the time.

In an attempt to further increase pressure on those opposing the sale, an earlier threat by the Government to introduce a new tax on electricity bills was revived by the Treasurer. He announced on 2 March 1999 that all households in South Australia would have to pay an additional $186 electricity levy per annum as a consequence of the ETSA sale not proceeding. The 'Rann power bill' as he described it was 'solely the responsibility of those who oppose the sale' (Kemp and Eccles 1999:1). This attempt to shift responsibility onto Labor did not obscure the Governments lack of community and Parliamentary support for the sale. A poll of 500 voters undertaken by *The Advertiser* in February 1999 indicated that the Government's primary vote had fallen from 41 per cent to 37 per cent over the month to February (Kemp 1999c:21).

While public opposition to the sale was high, this was not reflected in the coverage of *The Advertiser* newspaper that regularly published comments from prominent business people and other figures supportive of the sale. The views put forward by *The Advertiser* and key business leaders mirrored those of the Liberal Government. These comments usually warned of an impending fiscal crisis if ETSA was not sold.

On 15 March 1999, former Liberal Party leader and Premier of South Australia, Steele Hall[5] entered the debate, leading a group of business people. He argued that the sale was

[5] Steele Hall was Premier of South Australia from 1968 to 1970.

essential to reduce State public debt. Hall supported the Government's claims about the potential impact of the sale of NSW electricity assets on South Australia's relative competitive position (Kemp, M 1999d:3). He argued that South Australia risked being '… left behind as the Australian cripple', if other States have the capacity to remove payroll taxes and South Australia does not (ibid:3). The Head of the Real Estate Institute of SA, Trevor Dunsford suggested, without any evidence, that the failure to sell ETSA was slowing down house sales and went on to describe the ETSA debate as '... an emotional squabble between a pack of ferals who have lost sight of the ball' (ibid:3). His comments are illustrative of a wider sense of frustration expressed by business representatives and large companies supporting the sale. Some however showed a willingness to intensify the pressure on the opponents of the sale. A group of South Australia's most prominent business people sponsored a full-page advertisement calling on the Labor Party, the Democrats and Nick Xenophon to support the sale (Kemp 1999e:11). The group included Southcorp Ltd chairman, Rick Allert, Southcorp managing director, Graham Kraehe, Gerard Industries chairman and former Liberal Party president, Robert Gerard, Adelaide Bank group managing director, Barry Fitzpatrick, Kinhill Chairman, Malcolm Kinnaird and BRL Hardy chairman John Pedrigh. They warned that, 'Taxes will rise, Business will leave. Jobs will go' if the sale did not go ahead (ibid:11).

The result of the March 1999 NSW State election undermined the Olsen Government's arguments about the impact of the sale of NSW electricity assets on the value of South Australia's electricity assets. After going to the NSW State election with a policy opposing privatisation of the electricity industry, the Carr Labor Government won convincingly. Widespread opposition to privatisation within the NSW community was regarded as a factor contributing to the re-election of Labor in NSW (Vass 1999:5).

6.5 In the Face of Defeat the Struggle Intensifies

While neo-liberal ideas were on the ascendancy internationally during the 1980s and 1990s, the extent to which they were adopted by governments was mediated by local political circumstances. In the Australian context the presence of Labor Governments circumscribed but did not exclude privatisation from the policy agenda. Labor's approach to privatisation might best be described as pragmatic in the context of Feigenbaum et al

(1998) typology. Liberal/National Party Coalition Governments on the other hand, have tended to pursue systemic privatisation strategies that seek to transfer the ownership and control of all public enterprises to the private sector.

While Labor Governments at the State level in Australia have normally rejected the privatisation of electricity assets, some Labor Party MPs have been active supporters of electricity industry privatisation. This has been particularly evident in New South Wales where the leadership of the Labor Government have initiated a number of attempts to privatise the industry.[6] To understand the struggle for control of the electricity industry in South Australia it is necessary to appreciate this political complexity.

Having reached an impasse and with no clear sign that it would win the support it needed to pass the sale legislation in the Upper House, the Government was forced to disband the ETSA sale consultancy team. Around 40 consultants were working on the sale at the time. Over the twelve months to 24 April 1999 the Government had spent around $30 million on consultants (Kemp 1999f:27).

In an effort to increase pressure on sale opponents, the Government followed through with its threat to introduce a new ETSA tax on households if the sale did not go ahead. The May 1999 State Budget included an ETSA surcharge that would result in an average increase of around $186 on household electricity bills. The Treasurer, Rob Lucas justified it, arguing that 'The Parliament was given a clear choice of either supporting the sale or lease of ETSA and Optima and the associated ongoing financial benefits or, if it opposed … a sale or lease, it would have to accept the alternative tax increases or expenditure reductions' (Morgan 1999:6).

Soon after the State Budget it appeared that the Government might be given the lifeline it needed to get the sale legislation through Parliament. On 1 June 1999 Trevor Crothers shocked his Labor caucus colleagues by announcing that he was considering supporting a lease of ETSA (Kemp 1999g:1). In a dramatic statement later that day Trevor Crothers

[6] There has been a vigorous debate in the New South Wales (NSW) Labor Party for over a decade about the privatisation of electricity assets in that State. A proposal by the Carr Labor Government in NSW to privatise the industry was rejected in 1997. The debate reached a turning point n late 2007 when the NSW Labor Government, led by Morris Iemma announced that it would privatise electricity generation assets in NSW. The Government is yet to secure the support it needs within the Victorian Parliament to achieve this outcome.

indicated that he might support the lease of ETSA if the State Government met a number of conditions. In exchange for his support he sought assurances from the Government that the legislation would include guarantees for ETSA employees including a choice of either '… relocation to another government job or a voluntary separation package of eight weeks plus three weeks for every year or service to a maximum of 104 weeks' (ibid:1). He also demanded that all of the proceeds from the lease be used to retire public debt. These relatively modest conditions were not likely to be rejected by the Government.

On the following day Crothers outlined some of the reasons why he was considering supporting the Government's proposal to lease ETSA. He echoed arguments put forward by the Government, including that the lease was necessary to reduce public debt and improve South Australia's credit rating. By reducing public debt he suggested that South Australia would become a more attractive place to invest and the Government would be in a better position to offer financial assistance to firms like Mitsubishi in attempt to keep them in South Australia.[7] Finally he argued that the value of the assets would decline dramatically because the NSW government was likely to sell its electricity assets soon and he said 'If that happens there will be nothing left in the kitty for SA to get a fair price for our assets' (ibid:1). These arguments indicated that Crothers was on the verge of shifting his support to the Government.

Leader of the Opposition, Mike Rann sought to persuade Trevor Crothers to oppose the sale arguing that privatisation of the electricity industry would result in higher electricity prices and the loss of '… control … of ETSA to foreign investors who have no interest in the welfare of … the community or in the development of the South Australian economy' (ibid 4). After written reassurances from the Government, Trevor Crothers crossed the floor in the Upper House to support a 'test clause' in the Government's sale legislation on June 3 1999. This paved the way for the Government to pass the legislation in full. In the end it appears that while Crothers was not prepared to agree to the sale of ETSA, he was willing to support a long-term lease of the assets even though this was equivalent to a sale. Crothers later provided an insight into his change of mind. He revealed that he had met with the Premier 'Six to eight weeks before the June 3 vote and Olsen (the Premier) asked me to come down to his office. He said to me, 'Would you consider changing your mind

[7] The Mitsubishi car manufacturing plant in southern Adelaide was closed in February 2008 resulting in the loss of around 1200 jobs.

over the sale of ETSA?' 'Save your breath. The short and the long of it is I will not support the sale of ETSA … As I got up to leave, as a throwaway line Olsen said, 'Would you consider leasing ETSA?' 'I paused, then I went back and sat down again. It was my duty as elected member to support the lease to get the State back into the black. Anything less would have been a dereliction of my duty' (Clarke 2000:56). There is considerable inconsistency in the arguments put forward by Crothers. He indicated initially that he would have considered supporting the sale if the Government had announced its intention to do so prior to the 1997 election. He publicly opposed the sale but was clearly not committed to this position. His close ties with Terry Cameron as a member of the once dominant centre-left faction of the ALP, the ostracism faced by Cameron before and after his decision to support the sale, and Crothers own growing alienation within the ALP, appear to have contributed to his change of mind (ibid:56).

While the defections of Cameron and Crothers reflect factional, ideological and personal divisions within the ALP it is also possible that more pragmatic political motivations were at play. On the former question it appeared that despite Labor's public opposition to the sale of ETSA, a number of Labor MPs privately supported privatisation. The Treasurer, Rob Lucas suggested that eight members of the Labor Caucus had indicated to him that they supported the sale (Lucas SAPD HA 20 August 1998). Premier Olsen had earlier drawn attention to comments made in 1994 by Labor Member Kevin Foley suggesting that Foley supported privatisation (Olsen SAPD HA 18 February 1998). In a Parliamentary debate on 23 February 1994 dealing with responses to the State Bank crisis, Foley stated that he was '… quite happy to stand here tonight and say that I support asset sales. Given the State's severe debt situation, asset sales are an appropriate tool with which the Government can attack debt. I have no problem with an asset sales program' (Foley SAPD HA 23 February 1994). While Foley clearly indicated support for asset sales as a method of debt reduction he qualified this support arguing that '… for any public enterprise to be sold for anything less than its net present value for future cash flows is simply to give away future taxpayers' money and represents, on any constructive view, extremely poor public administration ' (ibid). While Foley may have privately supported the privatisation of ETSA on these grounds, he maintained public opposition to the sale in line with Labor Party policy.

That Cameron and Crothers were prepared to support the privatisation of ETSA reflects the impact of factional power struggles within Labor as well as a high degree of ambivalence among MPs about the privatisation of ETSA. Indeed one commentator argued that the sale could have been prevented if Labor members had paid more attention to persuading Crothers to oppose the sale:

> For the Opposition, the fact that Mr Olsen's greatest triumph as Premier has been delivered by two veteran Labor MPs, who could have been prevented from jumping ship, is only just beginning to sink in. Labor's Right was crying crocodile tears last night. What of those who said they genuinely wanted to defend party policy? They should have spent more time with Mr Crothers and less stacking branches.
>
> (Abraham 1999:2)

Another media commentator suggested that Liberal MP's had preyed on Terry Cameron's disaffection with the Labor Party. According to Messenger Newspaper journalist Terry Plane (1998:19) the Liberals had '… been laying the bait for Cameron for a long time, working on him subtly, playing on weaknesses only those in and around Parliament new about, and which even fewer know how to exploit'. There was considerable speculation about Cameron's motives for supporting the sale of ETSA. He came from a strong Labor Party family and was a former Secretary of the Labor Party. He knew that support for the privatisation of ETSA would result in his expulsion from the Labor Party. At the time this seemed like an inconceivable choice for Cameron. It appears that he had become an outsider within the Parliamentary Labor Party and may have been disillusioned by not having been offered a Ministerial position. Terry Plane (ibid) concludes:

> … if Cameron was standing on principle, we should respect his courage. If it was something else – say personal animosity gnawing away inside him like, say, a hungry rodent, fed by devious opponents disguised as sympathetic ears – we should pity him.

Whatever the truth about Cameron's motivations his idiosyncratic behaviour suggests that great caution should be exercised in ascribing principled motivations to individual agents. Personal weaknesses and vulnerabilities may well be at play.

The legislation enabling the lease of ETSA for a period of 200 years was passed in the Lower House of State Parliament on 10 June 1999. As soon as the legislation was passed the

team of consultants working on the privatisation of ETSA were 're-activated' and electricity privatisation brokers around the world were informed (Kemp 1999g:5). A month later the Treasurer, Rob Lucas announced that he would visit the United States to talk with a range of companies about the privatisation process (Morgan 1999:30).[8]

The course of events leading to the privatisation of ETSA illustrate not only the importance of examining the role that agency plays in shaping privatisation outcomes, but also the need to appreciate that while privatisation is often a likely outcome given certain structural conditions, the actions of agents make the outcome less certain and more complex than a structurally oriented investigation would suggest. In this context a relational approach to examining privatisation offers an insight into the complexity of privatisation debates, revealing a struggle for control of strategic assets between agents with divergent values and objectives.

6.6 Conclusion

A relational analysis reveals that while the privatisation of ETSA was a likely outcome given prevailing structural conditions, other factors were pivotal in determining the final outcome. In particular local political circumstances and the interventions of specific agents played a key role. A close examination of the ETSA privatisation debate revealed a protracted struggle for control of the South Australian electricity industry that accords with Feigenbaum et al (1998:149) view that privatisation can be viewed as a '…political battleground' where outcomes can be difficult to predict.

The struggle for control of South Australia's electricity system in the late 1990s can also be viewed in Jessop's (1982) terms as the conjunctural moment, or those elements of the social formation that can be altered by an agent or agents. Throughout the ETSA privatisation debate we can observe critical interventions by agents that altered the course of events, threatening to stifle privatisation, like the decisions of the Australian Democrats

[8] With the legislation cleared through Parliament the Government acted quickly to get the privatisation process underway. On 2 August 1999 the Government announced that it had leased Flinders Power to a US based firm, NRG Energy. The 100 year lease worth around $465 million involved a number of generation assets including Northern and Playford coal-fired power stations at Port August, the Leigh Creek coal mine, a rail line linking the mine and the power stations and the 'company' township of Leigh Creek. On 12 December 1999 the Government leased ETSA Utilities, ETSA's electricity distribution network, for 200 years to Hong Kong based Hutchson Whampoa group for $3.5 billion (McCleay 1999:33).

and Nick Xenophon to oppose privatisation. It was evident that business leaders, private consultants and the media played a key role trying to pressure MPs to support the Government's privatisation agenda.

The struggle between agents in the ETSA privatisation debate implicitly reflects competing views about the role of the state. In this context the debate was largely confined to the relative efficiency of public and private enterprises and it was often expressed in pragmatic rather than ideological terms. This obscures the wider political motivations that are often associated with privatisation. It also obscures idiosyncratic behaviour such as that displayed by Terry Cameron who appeared to be driven more by personal rather than political motivations in his support for the privatisation of ETSA.

The Liberal state government was committed to privatisation and pursued a systemic privatisation program that resulted in the sale of numerous assets in its first term of office. While it did not publicly canvas the privatisation of ETSA during this period, it was privately considering a range of privatisation options that it did not reveal for fear of a community backlash that erode its support in the lead up to the 1997 State election. While prevailing international and national ideas were conducive to privatisation, local political circumstances placed limits on applying these to the electricity industry in South Australia.

It is evident that the ideological positions of policy makers are rarely made explicit in policy debates. In fact it appears that they are often deliberately obscured to gain political advantage. This resonates with debates surrounding the establishment of public enterprise in South Australia during the 20th century. This reflects a pragmatic judgement that explicit ideological statements can be politically damaging to your case. Is this process privatisation is often been stripped of ideological meaning and presented as a rational technical decision in the face of fiscal and risk management imperatives.

The reduction of the ETSA privatisation debate to fiscal and risk management considerations can be viewed as pragmatic politics in the South Australian context where privatisation was deeply unpopular. A more ideologically explicit case for privatisation would have proved very difficult to sell. The ideological case for the privatisation of ETSA may not have been made explicit to the wider community but it was clearly evident in the

Government's wider reform program and in the advice and the advisers that the Government sought out.

This chapter has argued that agency played a crucial role in determining the course of the ETSA privatisation debate. At times the interventions of specific agents proved pivotal, appearing to stifle and thwart the Government's intentions to privatise ETSA. This made the outcome difficult to predict. Appreciating the role of agency in generating this uncertainty provides a richer multi-dimensional explanation of why ETSA was ultimately privatised. It also helps to avoid deterministic explanations of privatisation that obscure the political contestation that accompanies attempts to privatise public assets like ETSA.

Chapter 7

CONCLUSION

7.1 Introduction

This thesis investigated the forces shaping privatisation in an effort to better understand why the Electricity Trust of South Australia was privatised. In particular it examined whether the privatisation of ETSA was a likely but not certain outcome given the interaction between prevailing ideas, conditions and agents.

The thesis challenged the explanatory utility of that body of contemporary research on privatisation, which is preoccupied with the relative efficiency of public and private enterprises. In this context neo-liberal perspectives privilege financial arguments over wider historical, political and economic factors in explaining privatisation. Similarly it is evident that the role of agents in shaping decisions should not be reduced to self-serving individualism when wider collective interests are evident. To gain deeper insights into the forces driving privatisation in contemporary settings it is necessary to examine the complex interplay of ideas, power, institutions and agents that shape privatisation debates and outcomes. This is the essence of a relational analysis of privatisation.

The relational approach employed in this thesis has revealed that it is not sufficient to focus on ideas and economic conditions as the principal determinants of nationalisation or privatisation. While an examination of such factors is crucial it is also necessary to investigate the role that agents play in shaping nationalisation and privatisation debates and outcomes.

This chapter draws together the broad findings of the thesis and considers the conceptual implications of these for future research on privatisation. The following sections draw together the broad contribution that ideas, structural conditions, institutions and agency played in shaping ownership and control of the electricity industry in South Australia. The implications of this analysis for understanding why ETSA was privatised are distilled.

Finally the conceptual and methodological implications of these findings for future research on privatisation are examined.

7.2 The role of ideas and influence of structural conditions

Ideas and structural conditions played a key role in shaping both the nationalisation and the privatisation of the electricity industry in South Australia. From the mid 19th century public enterprises were a common feature of the development of western capitalist countries under liberal, labor and social democratic governments. The impact of the tumultuous events culminating in WW2 and the growing influence of Keynesian and socialist ideas upon debates about the role of government reinforced this tendency. Australia and South Australia were not immune to these forces for change. While radical liberals, socialists and social democrats in South Australia had differing motivations for establishing public enterprises they all accepted the legitimacy of the state intervening in this way.

South Australian governments of different political persuasions made use of public enterprise as a tool of social and economic development from settlement onwards. While the motivations for the establishment of public enterprises varied from case to case and changed over time, they were a key feature of the political and economic landscape in South Australia till the 1970s.

This was not unique to South Australia but reflected a worldwide retreat from laissez faire economics in western capitalist countries, culminating in the development of the welfare state in the post WW2 period. A more interventionist role for the state reflected the growing influence of Keynesian and Socialist ideas in the wake of economic depression and war. The emergence of a strong social democratic movement aided by the ideas and political actions of radical liberals created considerable political momentum for change, displacing laissez faire as the prevailing ideological force.

The experiences of the Great Depression and wartime sharpened the need for the development of secure and reliable sources of electricity generation and supply to meet the industrial needs of that time. Additionally the post-war imperative of re-building a civilian

economy and providing housing and employment in South Australia generated considerable momentum for a change in the ownership of the electricity industry.

Technological advances in the generation and supply of electricity created the possibility of large networked systems that constituted 'natural monopolies'. The establishment of extensive networks required 'rights of way' to land, which necessitated government intervention to secure the large tracts of public and private land that were necessary of the advancement of the industry. All of this conferred significant economic and political legitimacy on government intervention to secure timely and beneficial outcomes. In this context nationalisation could be seen as an efficient and effective means of accelerating the pace of electrification and underpinning more rapid growth and accumulation.

The momentum for public enterprise development remained strong in the lead up to the establishment of the Electricity Trust of South Australia. In particular, nationalisation of the electricity industry was commonly adopted by governments in the early 20th century as a means of promoting economic and social development. It underpinned accumulation by enabling industries to take advantage of the technological benefits of electrification. Urban and regional communities enjoyed the amenity of electrification, conferring wider political legitimacy on the substantial investments that governments made in the industry.

A retreat from Keynesian ideas and public enterprise in the wake of the global oil crisis of the 1970s and the reassertion of laissez faire economics eroded the legitimacy of public enterprise in the 1980s. However structural conditions prevailing in Australia and South Australia during the 1990s were also conducive to privatisation. Economic recession and crises in the Australian financial system created fiscal pressures which neo-liberal policy makers sought to solve through asset sales. Neo-liberal ideas were on the ascendancy both nationally and internationally, influencing the policies of both Labor and conservative political parties in Australia. Domestically a neo-liberal economic consensus was forged around the future development of the electricity industry through the adoption of a range of policies including national competition policy and the creation of the National Electricity Market.

The recession of the 1990s and the collapse of the State Bank of South Australia undermined the Bannon State Labor Government's political legitimacy and paved the way

for the election of a Liberal Government. The new government was committed to a radical neo-liberal economic program as a solution to the financial crisis facing the state. This manifested in an initial wave of privatisations that did not include ETSA. Widespread opposition to the sale of ETSA within the South Australian community is likely to have prevented the Liberal Government from including ETSA in its first wave of asset sales. The re-election of the government in 1997 provided an opportunity to revisit the privatisation of ETSA. The lack of a majority in the Upper House of Parliament and sustained community opposition represented major political obstacles.

A relational analysis reveals that while prevailing structural economic and political conditions suggest that privatisation was a likely outcome of the ETSA privatisation debate, it was not an outcome that should be taken for granted given local political circumstances and the interventions of specific agents at crucial times during the debate. While wider structural political and economic conditions were conducive to privatisation, a close historical examination of the debate revealed a protracted struggle for control of the South Australian electricity industry that accords with Feigenbaum et al (1998:149) view that privatisation is a political battleground. Moreover this might be viewed as a struggle for control of the South Australian electricity industry, a struggle characterised by the interaction between structural conditions and agents at a particular point in history.

While structural conditions were conducive to privatisation, local political conditions generated considerable resistance to this outcome. From a relational perspective these circumstances can be viewed as a conjunctural moment or those elements of the social formation that can be altered by an agent or agents (Jessop 1982). The actions of institutions and individuals were profoundly important in shaping the course of the ETSA privatisation debate and the eventual outcome.

7.3 The influence of agents

While the interventions of agents in the nationalisation and privatisation of the electricity industry in South Australia were circumscribed by prevailing ideas and economic conditions their actions can be seen to play a critical role in shaping the final outcomes. Radical Liberals and Labor politicians supported the development of public enterprises for a range of pragmatic, tactical and systemic objectives.[1] Pragmatic objectives appeared to drive policymakers who sought to address market failures in an attempt to accelerate the industrialisation of the state. Tactical objectives can also be observed particularly in relation to the regionalisation of rail services to satisfy country constituencies. More broadly, systemic objectives are evident, including increasing the influence of the state over the pace and character of economic development and capital accumulation. Greater democratic control of physical infrastructure might also be viewed as an objective of social democrats.

Aided by key public servants like J W Wainwright, Premier Tom Playford understood how strategically important the industry was to the industrialisation of the State. His dealings with the privately run industry fuelled his concern that it would not play the critical role required of it in the industrialisation process. At this time South Australia was heavily dependent upon interstate sources for the supply of black coal to fuel its electricity generators. This dependence upon interstate sources of coal and the reluctance of the privately owned Adelaide Electric Supply Co. to more fully exploit locally available coal at Leigh Creek led South Australian Premier Tom Playford to place pressure on the AESC to make better use of Leigh Creek coal.

The nationalisation of ETSA may have been a likely outcome given the international political and economic circumstances and conditions of the time, but an examination of local political circumstances indicates that the outcome was difficult to predict. At this level of analysis it is necessary to examine the often-idiosyncratic actions of individuals. In the end Playford used his considerable personal influence within his party to secure the

[1] The typology developed by Feigenbaum at al (1999) for examining the motivations for privatisation is used here as an organising framework for a discussion of the objectives of nationalisation.

vote that he needed to ensure the passage of the nationalisation legislation through the Legislative Council. To the extent that Playford's motivation for nationalisation of the electricity industry in South Australia can be ideologically situated he appears to share the radical liberalism of his predecessor Kingston and persuaded of the utility of Keynesian ideas transmitted to him by his able adviser Wainwright.

Throughout the ETSA privatisation debate we can observe critical interventions by agents that fundamentally altered the course of events, threatening to derail privatisation, as was the case when Independent MP Nick Xenophon announced that he would oppose privatisation. The struggle between agents in the ETSA privatisation debate implicitly reflects competing views about the role of the state. In this context the debate was largely confined to the relative efficiency of public and private enterprises and it was often expressed in pragmatic rather than ideological terms. This obscures the wider political motivations that are often associated with privatisation. It also obscures idiosyncratic behaviour such as that displayed by Labor MP Terry Cameron who appeared to be driven more by personal rather than political motivations in his support for the privatisation of ETSA. It is important to acknowledge the role that frustrated ambitions might have in shaping public policy outcomes.

It is evident that agency played a crucial role in determining the course of the ETSA privatisation debate. At times the interventions of specific agents proved pivotal, appearing to stifle the Government's objective of privatising ETSA, then ultimately paving the way for privatisation. This made the outcome difficult to predict.

Appreciating this uncertainty has enabled the development of a multi-dimensional perspective on why ETSA was ultimately privatised. Such an approach, taking account of historical background, structural conditions and agency can help to avoid deterministic explanations of privatisation. This represents an important conceptual advance on economistic approaches to the study of privatisation.

7.4 Conceptually situating the privatisation of ETSA

As well as examining the utility of a relational approach to investigating why ETSA was privatised this thesis has also sought to situate the privatisation of ETSA in a wider conceptual framework for understanding the political economy of privatisation. In this context Feigenbaum et als (1998) typology of privatisation has proved useful, though problematic. The privatisation of ETSA does not sit neatly in one of the three categories contained in the typology – tactical, pragmatic and systemic. The motivations for the privatisation of ETSA might be described as having both pragmatic and systemic elements. The latter is demonstrated by the program of neo-liberal economic reform introduced by the Government early in the mid 1990s. This might be viewed as an attempt to affect a long-term shift in the balance of power in South Australia in favour of capital. The privatisation of ETSA was consistent with the broad neo-liberal policy directions of the Liberal government. Privatisation also enabled the government to pursue more immediate pragmatic objectives including reducing public debt and managing political risks like the fear of rising electricity prices in the National Electricity Market.

It appears that the leadership of the Liberal Government was committed to the privatisation of ETSA but wary of the political consequences of doing so. It is evident that the State Government was secretly considering the privatisation of ETSA as early as 1995 and was involved in investigating options for privatising ETSA before and immediately after the 1997 State election. Despite this the Government went to the 1997 State election pledging it would not privatise ETSA.

The Liberal Government argued that retaining ETSA was financially beneficial for the State. It stated that it made no sense to sell a profitable public enterprise that returned significant dividends to the State Budget. This accorded with view of the majority of South Australians who opposed the privatisation of ETSA.

It is evident that the ideological positions of policy makers were rarely explicit during the ETSA privatisation debate. They are sometimes deliberately obscured in an attempt to depoliticise an issue in order to gain a tactical political advantage. This approach was also

evident to some extent during the nationalisation debate, though much less so. Privatisation was stripped of its ideological baggage and presented simply as sound financial management.

The reduction of the ETSA privatisation debate to fiscal and risk management considerations can be viewed as pragmatic politics in the South Australian context where privatisation was deeply unpopular. A more ideologically explicit case for privatisation would have proved very difficult to sell in this context. The ideological case for the privatisation of ETSA may not have been made explicit to the wider community but it was clearly evident in the Government's wider reform program and in the advice and the advisers that the Government sought out. In this context privatisation can be viewed as a systemic objective of the Liberal Government.

The case study research undertaken in this thesis suggests a more flexible approach to seeking to categorise the motivations for privatisation is warranted. We have observed that multiple motivations for privatisation co-exist and that outcomes are mediated by a contest of ideas and power as well as the often-idiosyncratic actions of agents.

While prevailing neo-liberal ideas and structural conditions provided the foundation for privatisation in South Australia, the privatisation of ETSA was the product of a hotly contested struggle that hinged on the actions of a small number of agents. Appreciating the importance of these dynamics is one of the key lessons of this thesis. Structural conditions and agents have interacted in complex ways to influence the course of the ETSA privatisation debate. Detailed case study analysis sheds light on this complexity indicating that an analysis of prevailing structural conditions alone, provides only a partial explanation for the privatisation of ETSA. A more complete understanding of the forces driving and resisting privatisation requires a close examination of the actions of key agents.

It is not sufficient to seek to explain privatisation in neo-liberal economic terms as the debate on the relative efficiency or effectiveness of public and private ownership obscures the political contestation and struggles that surround privatisation. Equally, privatisation cannot be viewed simply as the product of prevailing global economic conditions as influential as these might be on the decision making of the state. A more holistic approach to the study of privatisation is warranted to avoid one dimensional and deterministic

explanations of privatisation. Privatisation might be best explained as '… the direct result of combinations of both ideological and pragmatic contingencies within a fluctuating political and ideological environment of history…' (Wettenhall cited in Hodge 2000:44). A relational approach to investigating privatisation reveals the complexity of forces shaping privatisation and the difficulty of predicting outcomes in the face of considerable uncertainty. At the heart of this uncertainty is the influence that different agents exercise over the course of events which might be viewed as a struggle, albeit constrained by the weight of history, for control of the electricity industry.

7.5 Implications for future research

A relational approach to examining privatisation offers rich insights into the political economy of privatisation that narrow financial and economic analyses obscure. It has been argued that there is considerable utility in adopting a conceptual approach which asserts the profoundly influential role that prevailing economic ideas and conditions play in shaping public policy, while viewing structure and agency in dialectical terms. Such as approach reveals the significance of political contestation by shedding light on the influential role that individuals and institutions play in shaping public policy. This influence can be exercised to reinforce or challenge seemingly insuperable global or local forces.

A relational analysis of privatisation that includes an examination of 'micro-political' considerations using case study analyses can generate new knowledge about the complex political processes that surround and inform privatisation debates. Further research on the forces driving and resisting privatisation is warranted to complement the considerable technical literature that can depoliticise privatisation as field of research. In particular, case studies on electricity privatisation in differing domestic political contexts are likely to provide new insights into the interaction between structure and agency in shaping privatisation outcomes. An obvious case in point is the New South Wales electricity industry. At the time this thesis was being concluded a vigorous debate about the future of

the electricity industry in New South Wales unfolded. For the first time in Australian history, a Labor Government had initiated the privatisation of electricity assets.[2]

While case studies based on publicly available data provide important insights into the complex political and economic dynamics surrounding privatisation, they can be further enriched by interviews with central players in privatisation debates. The retirement of politicians from Parliament can provide an opportunity to gain new insights and confirm speculative judgements. Ten years after the privatisation of ETSA it remains unclear to what extent ideas and personal motivations were behind the actions of former Labor MP Terry Cameron who voted to support the privatisation of ETSA. The opportunity to explore this element of the micro-politics of the privatisation of ETSA is nearer than it has been.

[2] In May 2008 the Labor Government of Morris Iemma sought and failed to win the support of the State Council of the Labor Party of New South Wales for a proposal to sell the generation assets of the publicly owned electricity industry in New South Wales. Despite this, the Iemma Government announced that it would continue to pursue its privatisation objectives through the NSW Parliament. This presents a unique opportunity to examine the utility of a relational approach under quite different domestic political circumstances.

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APPENDIX A: CHRONOLOGY OF KEY EVENTS

1943	Royal Commission into the South Australian electricity industry
September 1945	Royal Commission recommends government acquisition of the Adelaide Electricity Supply Company
11 October 1945	Electricity Trust of South Australia Act introduced into State Parliament to acquire the Adelaide Electricity Supply Company
9 April 1946	ETSA Act passed by one vote in the Upper House
1 September 1946	ETSA created
10 February 1991	Initial $1 billion bail out of State Bank of South Australia announced by Bannon Government.
12 February 1991	Royal Commission into State Bank established by the Bannon Government
29 August 1991	Premier Bannon announces State Bank bailout doubled to $2.2 billion in State Budget
27 August 1992	Premier Bannon announces State Bank bailout to be further increased in State Budget
1 September 1992	Premier Bannon resigns as Premier, endorsing Lynn Arnold as his successor

29 September 1992	Premier Arnold announces a coalition government including independent Labor MPs Terry Groom and Martyn Evans
17 November 1992	First report of the State Bank Royal Commission is tabled in State Parliament
18 November 1992	Arnold Labor Government survives no confidence motion with the support of three Labor independents
22 April 1993	Premier Arnold releases 'Meeting the Challenge' economic statement
December 1993	South Australian election results in defeat of Labor government and the election of a Liberal Government, led by Dean Brown
15 December 1993	Premier Dean Brown announces establishment of South Australian Commission of Audit
22 April 1994	South Commission of Audit Report presented to State Government
3 May 1994	Report of SA Commission of Audit tabled in State Parliament
May 1994	Treasurer Stephen Baker releases Financial Statement in response to the Report of the SA Commission of Audit
August 1994	State Budget - Treasurer Stephen Baker announces state budget cuts in the areas of health and education and a range of asset sales including the Pipelines Authority of SA. He also announced the Governments intention to sell the State Bank and State Government Insurance Commission during 1995-96
21 August 1995	State Budget - Treasurer Stephen Baker delivers further real reductions in expenditure in health, housing and education sectors and announces that planned asset sales would reap $1.6 billion during 1995-96

18 May 1996	Premier Dean Brown rejects privatisation of ETSA and Optima Energy.
28 December 1996	Infrastructure Minister John Olsen states that the SA Government has no plans to sell ETSA.
3 February 1997	It is revealed that confidential State Cabinet documents on the water and information technology contracts leaked to the Opposition
20 March 1997	Auditor General Ken McPherson tells State Economic and Finance Committee of Parliament that there was no evidence of impropriety in the State Government's handling of the water contract.
June 1997	Mr Ken Hartley appointed by the SA Environment Protection Authority to investigate the cause of the Bolivar treatment works 'odour event'
12 August 1997	Infrastructure Minister, Mr Olsen outlines the importance of ETSA dividends to the State budget.
3 September 1997	Infrastructure Minister Ingerson claims that ETSA could be sold or outsourced if state revenue fell into a hole.
9 September 1997	Infrastructure Minister Ingerson reveals that he had informal talks in Melbourne on September 8 about investing in a new generating plant in SA. He concedes that selling SA's electricity assets was ' an option in the foreseeable future', but it would not be pursued at the present time.
17 September 1997	Mike Rann declares that the state election will be a referendum on privatisation warning that the Liberals will privatise ETSA if they get back into power.

18 September 1997	Premier Olsen states that ETSA is valuable to the state and will not be sold off.
21 September 1997	Premier Olsen rejects privatisation of ETSA.
11 October 1997	South Australian election – Liberal Government is re-elected.
17 February 1998	Premier Olsen announces decision to sell ETSA and Optima and will investigate the sale of TAB/Lotteries, HomeStarts and the Ports Corporation.
18 February 1998	Premier Olsen warns that new taxes will be introduced if assets are not sold.
20 February 1998	Television polls indicate that up to 92 per cent of South Australian's oppose the sale of ETSA
20 February 1998	Premier Olsen claims at the Premier's Business Luncheon addressing 400 of South Australian business people that ETSA and Optima will be sold 'one way or another.
24 February 1998	Leader of the Opposition, Mike Rann reveals that the Liberal Government had considered the privatisation of ETSA early in 1996. A leaked document prepared for the consideration of the Government revealed that the Government was considering a range of privatisation options.
18 March 1998	Premier Olsen introduces legislation to privatise ETSA/Optima into State Parliament.
15 April 1998	US based investment bank, Morgan and Stanley win the contract to be the lead advisors to the South Australian Government on the sale of ETSA and Optima Energy.

2 June 1998	Premier Olsen and Treasurer Lucas warn of substantial further cuts to public sector employment if ETSA is not sold.
23 June 1998	Premier Olsen warns that taxes will be increased if ETSA is not sold.
25 June 1998	The Australian Democrats decide to block the sale of ETSA in the Upper House.
29 June 1998	Premier Olsen announces that a referendum may be held if the privatisation of ETSA is blocked by the Upper House.
30 June 1998	SA Government unveils plans to break up the SA electricity industry into six separate companies regardless of the success of the privatisation process.
30 June 1998	Premier Olsen announces ETSA sale plan including commitment to a 5 year freeze on average consumer prices, environmental standards for power generators and job protection for electricity workers. Optima to be split into three generating companies, ETSA to be split into generation, distribution and retail companies, appointment of Independent Economic Regulator and Electricity Ombudsperson, cross subsidies to continue for country users.
4 July 1998	An Advertiser newspaper poll reports that only one in four South Australians supports selling ETSA and Optima.
9 July 1998	An Advertiser newspaper journalist, Greg Kelton claims that there are a number of Labor MPs who would like to see the SA electricity industry privatised.
29 July 1998	Independent No Pokies MP, Nick Xenophon says he will find it difficult to support the sale of ETSA.

6 August 1998	Labor MLC Terry Cameron accuses Opposition Leader Mike Rann of playing politics over the sale of ETSA and Optima Energy.
12 August 1998	Labor MLC Mr Terry Cameron proclaims his support for the sale of ETSA and Optima.
12 August 1998	Independent No Pokies MP, Nick Xenophon says he will not support the sale of ETSA without a referendum on the issue. MLC Trevor Crothers announces 'he would have had considerable difficulty not supporting the sale of ETSA' had Mr Olsen said he wanted to sell the assets before the state election. Terry Cameron, MLC voted against the ALP caucus to support the second reading of the sale bill. The Advertiser, p 1-2, Miles Kemp and Phillip Coorey.
17 August 1998	Standard and Poors claim that the sale of ETSA and Optima Energy would be positive for the rating.
20 August 1998	Labor MLC, Terry Cameron crosses the floor in the South Australian Parliament to support the sale of ETSA and Optima Energy.
22 October 1998	Internal Liberal Party polling shows that 'fewer than one in three people support the State Government's proposed sale of ETSA. Only 31 per cent supported the sale of ETSA. The Advertiser, p 29, Miles Kemp.
3 November 1998	Independent No Pokies MP, Nick Xenophon indicates he will not support a long term lease of ETSA but would support a shorter term 25 year lease which he believed would not breach the Governments pre-election commitment to not sell ETSA.
8 December 1998	Independent No Pokies MP, Nick Xenophon announces he has 'lost faith' in the Olsen government and will not support the proposed lease of ETSA.

10 December 1998 Western Mining Corporation threatens to source it's electricity needs from elsewhere if ETSA is not privatised.

7 February 1999 A *Sunday Mail* poll of 500 voters indicates that 55 per cent of voters opposed the sale or lease of ETSA while 34 per cent supported it. Sunday Mail, Craig Clarke, p 6.

2 March 1999 Treasurer, Rob Lucas announces that a new tax will be added to electricity bills if the electricity industry is not privatised. He argues that it is directly attributable to the failure of the Opposition to support privatisation of the industry.

1 June 1999 Labor MLC, Mr Trevor Crothers indicates in State Parliament that he might support the leasing of ETSA if the State Government meets a number of conditions.

2 June 1999 Mr Trevor Crothers, Labor MLC of the South Australian Parliament meets with the Treasurer, Mr Lucas regarding a series of demands he sought in exchange for considering his support for the leasing of South Australia's electricity assets.

3 June 1999 Mr Trevor Crothers, Labor MLC of the South Australian Parliament crosses the floor to support a key clause in the Government's Electricity Corporations Disposal Bill to lease South Australia's electricity assets.

11 June 1999 Premier John Olsen announces in Parliament that the lease arrangements for ETSA should be completed by June 2000.

3 August 1999 Treasurer, Rob Lucas announces 100 year lease of Flinders Power to US based firm, NRG Energy for $465 million. Flinders Power includes Northern and Playford coal-fired power stations at Port Augusta, the Leigh Creek coal mine, a rail line linking the mine and the power stations and the 'company' township of Leigh Creek. In addition the lease 'includes the management of the long-term power purchase contract for the Osborne (power) station'. *The Advertiser*, Susie O'Brien, 4 August, 1999, p 3.

18 August 1999 A survey of opinion undertaken by Warbarton Media Monitoring indicates that around 65 per cent of those polled would like to see a referendum held on the question of whether the South Australian electricity industry should be sold.

20 November 1999 The annual reports of South Australia's electricity assets show strong financial performance for the 1998-99 financial year.

12 December 1999 ETSA Utilities is leased for 200 years to Hong Kong based Hutchison Whampoa group for $3.5 billion. A key figure involved in the group is billionaire, Mr Li Ka-shing.

15 December 1999 Credit rating agency, Standard and Poors upgrade South Australia's credit rating to AA+ in the wake of the lease of ETSA Utilities for $3.5 billion.

15 January 2000 ETSA Power sold by CKI to AGL, an Australian company for $175 million.

28 January 2000 The $3.43 billion proceeds from the lease of ETSA Utilities are transferred to State Treasury.

21 February 2000 Early estimates of the fees to be paid to consultants working on the ETSA sale indicate the costs could be around $42 million.

6 June 2000 Treasurer Rob Lucas releases details about payments to consultants working on the ETSA privatisation.

‘The lead advisers, US- based Morgan Stanley Dean Witter and Pacific Road Finance, were paid $13.2 million, which included a success fee for finding a buyer. A group of law firms including Johnson Winter Stanley, Finlaysons, Allen Allen and Hemsley, and Arthur Robinson Hedderwicks, were paid $26.6 million. The accounting advisers KPMG were also paid a success fee as part of their $7.5 million fee. Local communications firm, Anderson Kennedy – run by former Bannon Government adviser Geoff Anderson and former adviser to Premier Olsen, Alex Kennedy were paid $421,000’. The Advertiser, Huw Morgan, p 7