

**Productivity Commission**

**Impact of Competition Policy Reforms**

**on**

**Rural and Regional Australia.**

**Submission by Devonport City Council**

**November 1998**

*"It's the same the whole world over;*

*It's the poor as gets the blame.*

*It's the rich as gets the gravy.*

*Ain't it all a bleeding shame."*

Victorian music-hall song.

"...Hostility towards free markets and economic liberalism is also driven by deeper forces: a fear that the benefits of growth are too concentrated and not fairly shared; a belief that markets are amoral, do not necessarily operate for the common good and have little legitimacy in a democracy; and a perception that globalisation is creating a new class distinction – escalating incomes and assets of those belonging to the new information economy and bringing economic decline for those "outside the loop."

Paul Kelly. *The Australian* 4/11/98

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**References**

Devonport City Council. Submission to Senate Committee on Unemployment. 1998. (enclosed)

Devonport City Council. Submissions to the Productivity Commission on Tariffs in the clothing, textile and footwear industries. 1997

Sundry ABS statistical reports.

Brian Dowse. "Alas Poor Fred." A prophetic paper given to a Local Government Managers Conference. 1995 (enclosed)

## **1 Introduction**

The issues in this inquiry raise a number of particular difficulties that set it apart from the normal Parliamentary or Commission Inquiry

### ***1.1 Separating the changes***

First, while the terms of reference refer to National Competition Policy reforms it is clear from the discussion paper that what is at issue is the whole thrust of “reform”, or “economic rationalism”, free trade or “globalization”, even of the whole of post Keynesian economic policy. It is, therefore difficult to sort out the strands of policy to which the terms of reference refer or to sort out policy related changes from other circumstances which have caused rural depopulation, loss of economic capacity, decline in services, contempt for metropolitan Australia and for political parties, and the general angst that seems to be symptomatic of rural and regional Australia. Generally we shall refer to the Hilmer related reforms as including the policies of deregulation and corporatisation or sale of Government enterprises even if the process was started before Hilmer – the Industry Commission set the precedent for that by claiming existing changes in airline and communication industries as part of the financial benefits of Hilmer (the benefits would have looked pretty thin otherwise). We will also refer where necessary to tariff reform and free trade, and separately again to the general tenor of economic rationalism including cutting services, reduced government spending, floating exchange rates, wage deregulation, and the non-interventionist policies of successive governments. In some statements, particularly after the Queensland election, National competition policy, even Hilmer himself is blamed for all of these, - Alas, poor Fred. Add in concerns over immigration, multiculturalism, native title, street crime, gun control, and all the other bogeys which irrational reaction uses as a substitute for analysis and there is a huge spectrum of discontent only some of which is to do with economics, and yet economics is at the core.

### ***1.2 Political issues***

The second problem is that there are two political considerations bearing on this inquiry. Although the original reference arises from the Hawker Committee there is a widespread perception that the need for it was heightened by the belief that there was “reform stress” in rural and regional Australia which accounted for the rise of One Nation and its electoral success in Queensland. Of minor consideration, but present none the less is the belief

that the Senate inquiry into the same topic will give a "wet" perspective on Hilmer reforms and that the Productivity Commission has been appointed by the Treasurer because it is unlikely to change its spots and will produce a counter view to that of the Senate.

On the first matter, the importance of Hilmer in creating or succouring One Nation we would suggest that this has been very exaggerated and that several important factors have been neglected. One is that we should not be surprised or attempt to read anything rational into what comes out of Queensland. A state that could tolerate the Bjelke Petersen government for so long is not one that is going to provide a political signpost for the rest of the country, and for the dyed-in-the-wool anti-labor vote the protest vote against the Borbidge Government was just too tempting. The other point that should be made is that the One Nation vote does not represent rural and regional Australia. It is suburban metropolitan and outlying retirement settlements that boosted One Nation, and in the Federal election it did not get from "The bush" anywhere near the vote that some commentators expected.

Despite the fact that we do not believe the connection between Hanson and Hilmer we cannot play down the political effect of the reforms. It is one thing to produce a blueprint for reform; it is lucky to have been able to do so at a time when micro-economic reform was flavour of the month. But when the effects of the reform begin to have both good and bad effects, when some reforms do not produce the anticipated benefits, when the perception is that the disadvantages are falling unevenly across the country, or that the Federal Government is not keeping to its part of the bargain, then the logic of the economic proposals gives way to the art of the possible.

It is good that this should be so. A major, and valid criticism, of Hilmer right from the start was that it never had any political approval. It became a bureaucrat's coup, sold to greedy states who gave away their powers in anticipation of a net gain which won't eventuate, and including only minor concessions to protect the disadvantaged, protection which has been largely ignored. So now, at last, there is some enquiry into the effects of this unapproved policy, run by the unelected and irresponsible Commission.

### ***1.3 Definition and policy***

The third difficulty, mentioned in the issues paper, is the problem of definition of "rural and regional Australia". Allied to this are the issues of governance and policy.

The Commission has taken as its starting point the definition of rural and regional Australia in the negative sense of non-metropolitan. Unfortunately in most recent political statements this has been about the only attempt at definition, though most times Hobart is included in rural and regional Australia despite its metropolitan status. Inevitably so wide a

definition will mean that there will be considerable differences in the problems experienced. Tasmania's outflow of population and under-use of resources is the other side of Queensland's problems of resource provision. Just as there are differences in the nature of problems in rural and regional Australia there will be variations in the amount of decline or disadvantage. There has, however been little attempt to analyse or classify the economies and comparative disadvantages of the different areas of rural and regional Australia. A possible starting point in this would be to use ABS data on Statistical Divisions to quantify various patterns of aging, population decline, unemployment, and individual and family incomes. It will follow from this that there are areas which will survive without help and that at the other end of the scale some cannot, and possibly for environmental reasons should not, have any further effort made. The clarification and classification of rural and regional Australia is essential if the Government is to be able to target those regions which most need help. Even then there are fundamental questions about what the Government's reaction should be. Looking after rural and regional Australia is a shibboleth for all parties, yet rural and regional Australia itself can claim that those same parties have sat by and watched a way of life steadily dying. When it comes to the crunch metropolitan Australia has been reluctant to do more than make pork barrelling promises at election time which are too widely distributed to be effective stimulants to growth in any region.

The central question, which nobody asks, is why governments should intervene to prop up rural and regional economies which are not and may not ever be self supporting. There are, no doubt good answers, starting with the need to produce and export foodstuffs, through the increasing waste of assets in rural and regional Australia, the cost of duplicating those wasted assets in cities and suburbs, and even including some of the more sentimental outpourings about the bush. Those answers must be articulated and need to be convincing enough to justify intervention by a non-interventionist government, and justify intervention to remedy the effects of reforms which are supposed to have been beneficial to everyone. Alternatively the economic rationalists must say whether they really believe that the market will impose its own discipline and reforms on rural and regional Australia and also answer the question of how much longer this is going to take.

If it is accepted that rural and regional Australia deserves intervention there is still the matter of how this is to be done, and by whom. Technically the responsibility is that of the individual states, but they lack the means, especially since they gave so much away at COAG.

Local Government has the knowledge of local conditions but generally is operating in units which are too small for this task. There are some regional organisations but few operate on a full time basis or with the resources to stimulate economic activity and are hampered by a fear on the part of both Local and State governments that a fourth tier of government might

be created. Thus the problems of rural and regional Australia fall prey not only to the lack of will to intervene, to the lack of research to intervene effectively, to the lack of money to intervene in time, and to the lack of an organisation to co-ordinate the intervention. As we have remarked in an earlier submission, regional policy falls into a crack in the constitution.

## **2 The Region**

The following description of the Devonport area was prepared for the City's submission to the Senate Committee on Unemployment's Inquiry into Regional Australia. The situation has not changed substantially though some aspects have worsened as shown at the end of the section.

### **2.1 *Devonport and its neighbours***

#### **2.1.1 Description**

Devonport is a city of about 25,000 people situated on the estuary of the Mersey River. With an area of only 120 sq. km it is the second smallest municipal area in the State.

The area was settled in the 1950s and grew steadily in the late 19<sup>th</sup> century until the amalgamation of Formby and Torquay, the towns on either bank of the Mersey, to form Devonport in 1892. The interwar period was stagnant but rapid growth took place after the war with the population growing from about 6,000 to 20,000 in a 25 year period. The City is now the largest population centre on the Coast and is the service centre and port for a sub-region of over 50,000 people, including the towns of Port Sorell, Latrobe, Kentish, and Ulverstone.

#### **2.1.2 The port of Devonport**

The port of Devonport, now a corporation, is central to the economic well-being of the region. It has specialised facilities for handling petroleum products, livestock exports, dairy produce, bulk cement, fertiliser, wheat and china clay. TT Line and Coastal Express Line provide general cargo container and roll-on roll-off services (9 return trips per week to Melbourne) and the port is the passenger terminal for Tasmania. Budget papers for 1997 show cargo throughput of 1.94 million tonnes and 493 ship visits.

The Corporation also operates Devonport airport which carried 130,000 passengers in 1995-6.



### **2.1.3 Industry – primary and secondary**

A considerable part of the industrial base of the sub-region is based on processing local primary product eg paper at Wesley Vale, vegetables at Simplot (Devonport & Ulverstone), meat at Devonport City Abattoir, milk products at United Milk Tasmania, cement at Goliath (Railton). These industries are vital to the State, being based on renewable resources, and to the City because of the other industries and infrastructure which support them, and which, after some recent uncertainty, may offer some stability in the future. Apart from supplying products for value adding, local primary industry has been effective in recent years in seeking new markets and products. Poppy growing and processing is well established and has been joined by pyrethrum; vegetable growers have diversified into crops and varieties suited to the Asian market; orchards have been re-established and restructure of local processors and marketers of primary produce should re-invigorate local production.

Two important industries which survived the financial turmoil of the 1980s are Australian Weaving Mills and Tascot Templeton Carpets. Neither use local produce but they are substantial employers who have repositioned themselves in specific markets and have survived rationalisation of their industries.

### **2.1.4 Tertiary industry and administration**

Much of the tertiary industry of the City depends on servicing the agriculture of the region. In particular the transport industries feature strongly with cold storage and packaging also important. Wholesale trade is also prominent, resulting from imports from Melbourne.

The size of the City and hinterland makes it a focus for services and administration for a number of federal and state government departments and agencies. Cut backs to services have inevitably contributed to the numbers of unemployed in the City.

### **2.1.5 Demography and lifestyle**

In some respects there is reason for confidence in the City's future. The port's activities have continued to grow; the last major industry lost was Ovaltine in 1991 and new factories have been established by UMT and Visyboard. Returns on agriculture have been low but production continues at the same rate. Retail shopping has reported increased activity, which may be at the expense of outlying areas; Australian Weaving Mills and Tascot Templeton carpets have been saved from accelerated tariff reduction and service industries are generally surviving if not prospering.

The problem is that despite these signs the demographic and labour force indicators show that unemployment seems to be intractable.

Census figures from 1996 show that for the first time since the depression Devonport has lost population. This is serious in itself but the City is also well served with elderly person's homes and is a favoured retirement centre. The net loss of population also has to take into account the inflow of the elderly and indicates how great the outflow of young people has been. This gives Devonport a median age and dependency ratio about two points above the state average, and a masculinity ratio well below national and state figures. A similar pattern of aging is developing in the surrounding area with proportions of the population over 65 as follows:

Devonport	13.5%
C.Coast (A)	14.3%
Latrobe (A)	13.8%
Tasmania	12.3%
Australia	12.1%

Incomes in Devonport continue to lag behind state and national levels as is shown in the table below:

	1991. \$ pw	% of Aus	1996 \$ pw	% of Aus	Increase %
Devonport	223	83.2	238	81.5	6.72
Tasmania	237	88.4	257	88.0	8.43
Australia	268	100	292	100	8.95

It is not so much the lower levels that are a problem, we must expect that in regional areas; but that the disparity is increasing and the rate of growth is lower.

### 2.1.6 Unemployment and welfare

Comparison of Devonport 1996 census employment figures with the region and nation show:

		Devonport	Mersey-Lyell	Australia
Male	% employed	56.6	60.5	64.3
	% part time	22.5	18.1	18.1
	% participation	69.8	69.8	71.4
	% unemployed	13.4	13.4	9.8
Female	% employed	39.2	46.7	48.8
	% part time	51.2	50.9	45.5
	% participation	44.7	46.7	52.8
	% unemployed	12.4	11.1	8.3

Here we can see that the rates of underemployment are higher for Devonport than the region as a whole, an indication that in the City where service industries should have taken up the jobs shed by manufacturing this has not yet occurred. These figures are compounded by two factors. One is that the rate of Disability Support payments is running about 2% higher for both men and women than in the region as a whole. The second is that the rates of disadvantage are broadly similar in Devonport's neighbours, Latrobe, Kentish and Ulverstone.

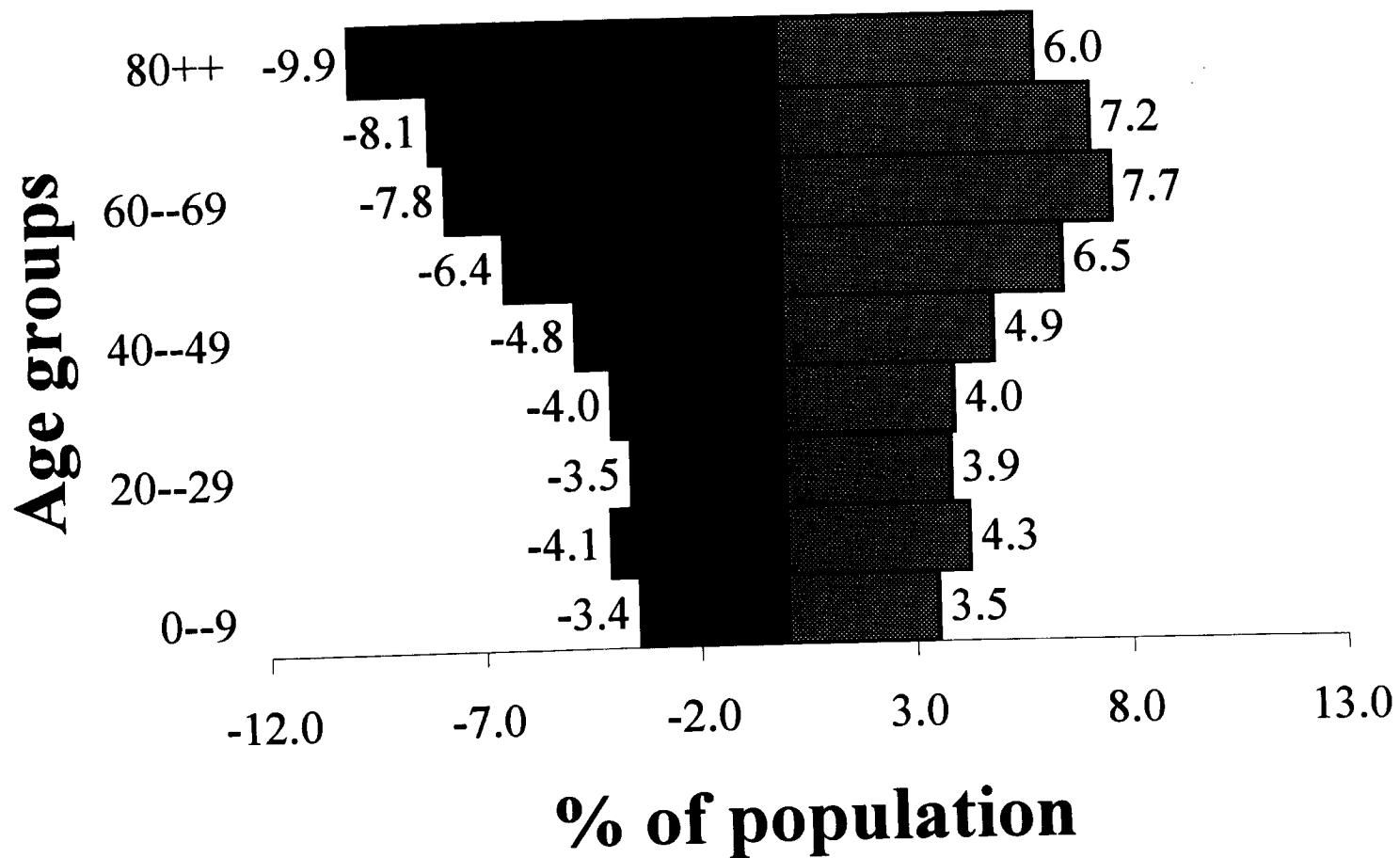
### 2.1.7 Transport

Devonport is excellently served by its external transport systems with regular sea and air links with the mainland and good road access to east and west. Paradoxically, it has a very limited internal transport system with no State Department of Transport services. This is seen by Government agencies (Centrelink and CES) as a special problem for the unemployed in Devonport, particularly as the Housing Commission areas where young populations are concentrated are on the fringes of the city. This makes it harder for them to seek jobs, to attend the Job Centre, or to take up opportunities for further training. The same problem

## Tasmania's projected population 1997-2051



# Age sex, Tasmania 2051



makes it harder for the people from the outlying areas, Latrobe, Kentish and Ulverstone to seek work in Devonport or to attend these agencies.

A similar lack of public transport along the coast inhibits full use of university extension facilities in Burnie. This is all the more serious since the University study centre has been closed.

## **2.2 *Recent developments***

### **2.2.1 *Demography***

Tasmania's population continues to decline at an accelerating rate (-0.48% per annum at the end of the December quarter 1997), and there has been no indication that the trend has been arrested in 1998. The principal cause has been a loss through internal emigration of 4,600 but as younger people leave the state there has been a decline in the total fertility rate, the crude birth rate and the marriage rate, which has now declined to levels previously reached only during World War 2.

There have been a series of projections of the Australian population up to 2041 & 2051 in recent years. The most recent is a revision of the previous 1997 figures and as on previous occasions shows a severe downturn for Tasmania.

This is, certainly, the worst case of the ABS projections, but it is based on the parameters of low natural increase, low overseas migration, and high internal migration which are in keeping with the present and likely demographic determinants in Australia.

The future problem is not only the loss of total population but the comparative aging of the Tasmanian population. This is graphically illustrated by the projected age-sex diagram for Tasmania in 2051. (These used to be called pyramids but forecasts have turned that expression on its head.)

The pattern shows a school age population (5-19) decreasing from 105,000 to 23,700, a Labour force population (15-65) from 307,700 to 98,500 and the dependency ratio rising from the present 50 to 102.85. It raises the question of whether Tasmania will still exist as a state (perhaps the others won't, either) and how other states will tolerate our 36,000 electors per seat compared with their 100,000 plus.

### **2.2.2 Labour statistics**

The Mersey-Lyell statistical division continues to lag behind the state with 12.6% unemployment - 1.5% above the state average and 4.4% above the national average. The participation rate is 5.1% below the national figure. Weekly earning in all categories are about \$40 per week or 5% below the national average and the number of overtime hours worked about 30% below.

### **2.2.3 Economic indicators**

Other indicators are mixed. Private investment and retail trade show Tasmania still in decline over the previous year and the building approvals show Tasmania as the only state in decline. However room occupancy rates were the best in the nation in the first quarter this year and the growth in Domestic (State) Final Demand at 0.8% for the June 1998 quarter was above the national average.

## **3 Impacts of Hilmer**

### **3.1 *General problems of rural and regional Australia***

As the Commission rightly points out in its issues paper the problems of rural and regional Australia often go back for decades, but change since 1975 has tended to exacerbate and accelerate problems in most areas. Some of these arise from external conditions. Floating exchange rates have meant for rural producers lower returns in hard currencies; it is all very well to argue that lower \$A values increase competitiveness. If the farmer cannot increase production to take advantage of his more competitive price, (and he certainly cannot until the next season) he just loses profit, and his imported tractor, or other equipment still costs more. Generally the only ones who will profit will be those who have more flexibility resulting from under-marketing or under-producing, i.e the more inefficient ones.

While globalisation is supposed to open up markets it also has the potential to increase instability, particularly when irresponsible use of capital flows are involved. The failures of the Asian and Russian economies have already reduced Australian markets and intensified competition in selling goods which would have gone to those markets. There is also widespread disbelief that Australia is gaining from free trade to the extent that the free marketers so confidently promised. Evidence of dumping, particularly of paper products has brought belated action from the government, but subsidies of competitor farmers continues in the USA and Europe and non-tariff barriers continue to be erected to limit our exports while

Australian authorities seem to welcome imports which are potentially hazardous to our livestock and aquaculture.

The biggest external threat to free trade and to Australia's rural industry is the recession which is predicted by all analysts as the over supply of all goods will bring trading and manufacturing activity to a decline over the next few years. We must expect that the reaction of most G7 countries will be away from free trade and that nationalist policies will be more generally prevalent, with many emerging countries following positions similar to the Malaysian government.

The other problems of rural and regional Australia are generally well documented. The reduction of employment on farms, loss of far income, and the general drift to the attractions of the cities have depopulated rural regions, making both private and public services unviable. This initiates a steady downward spiral which in many areas can be expected to lead to a complete collapse of local economies.

### ***3.2 National Competition Policy***

The part played by National Competition Policy in the decline of rural and regional Australia is hard to determine. It is probably too early for it to have had a major negative effect, but it has done nothing to remedy the long term downward trends and we must anticipate that microeconomic policies which are in line with macroeconomic developments are not going to reverse present trends. In examining the effects of NCP and associated reforms we note that there are general trends which work against rural and regional Australia and a number of instances where Hilmer reforms have not been applied, have missed their targets, or have been misused by other authorities.

### ***3.3 Regressive effects***

The total trend of reform has tended to be regressive. The results, in terms of concentration of wealth and unevenness of benefit, from the reforms of the 1980s were well documented by the present government when they were in opposition. It follows that this has a stronger regressive effect on rural and regional Australia where any shift away from taxation of income to indirect taxation has more detrimental effects, where capital outflows have reduced the ability to benefit from reforms, and where there are fewer wealthy to gain and more poor who will lose as a result of reform.



### **3.4 Centralising**

The general effect of economic deregulation throughout the world has been to concentrate power in capital cities and financial centres. Growth areas have been service industries, financial institutions (lilies of the field), and personal service which have been able to absorb those displaced from productive industries. NCP has done nothing to reverse this trend and we shall see that in a number of instances it has intensified it.

### **3.5 Non payment of funds**

The tranches of payments made to the states were meant to be a payment for compliance with Hilmer principles. While the first payments have been made and more are to follow shortly, the federal government has overlooked the agreement that these payments were to be in addition to maintenance of existing payments at adjusted per capita rates. It only took the government one year to renege on its agreement. (On a personal note, my window overlooks the grave of Sir Edward Braddon. Sometimes I think that his "blot" on the constitution wasn't such a bad old blot after all.) It is another example of parts of Hilmer being completely forgotten while Governments insist on keeping to the letter of the reform program where it suits their own interests.

### **3.6 Infrastructure reforms**

Reforms to parts of the electricity industry have enabled it, through break up of supply and distribution sections, and break up of geographical sections, to create a competitive arena and to provide flexibility of supply to meet varying patterns of demand in a way which was not possible with single state authorities. The main beneficiaries have been industrial users and again the effects have not enhanced economic activity in rural and regional Australia.

Water reforms were well under way before Hilmer. Since the policy of reform has been to increase water costs and to return more to governments we can say that the effect has been regressive. On the other hand the reformed suppliers are mainly those in urban areas so in this case the disadvantage of reform may have been avoided by rural and regional Australia.

The question of cost recovery of irrigation water does not seem to have become a major issue yet. It has the potential to cause considerable political turmoil, which is probably why it remains in the too hard basket. At least it is not yet adding to rural and regional Australia's woes. In Tasmania it is likely to be less contentious because of the amount of

private catchment, low use of publicly impounded water for irrigation, and existing payment regimes for existing schemes.

In Tasmania we have less experience of road and rail transport reforms. We have some doubt as to whether the reforms would not have taken place anyway, particularly in road transport, which is responding continually to technical change. It is worth noting that British and European transport costs, in petrol, licenses and road tolls, far exceed those in Australia, an exception to the general trend of funding from central government funds, even if the European countries use VAT.

### **3.7 *Government monopolies***

Hilmer's concerns about government monopolies centred on their dual role as regulators and providers, on their comparative advantages through exemptions from federal and state taxes, their protection from competition and their domination of the infrastructure.

He also identified an "uneven playing field" where *Government Business Enterprises are in competition with the private sector* (my italics), and maintained that in some instances there were cross subsidies and inadequate costing to recoup the cost of government investment. Again these problems had been identified well before Hilmer and in many cases reform was well under way.

Hilmer also warned that state treasuries should not regard GBEs as cash cows for state taxation, but that seed fell on stony ground, so we have to pay more for the use of our port, our airport, our water and our electricity so that there is a profit on which the organisation can pay tax, thus cross subsidising other government services, and despite the fact that these organisations are not in competition with the private sector. As with so many other measures the effect is to broaden the base of taxation to the benefit of the wealthy, and of metropolitan economies. Furthermore, and as usual, the cost benefit analysis and the public benefit test, intended to identify and if necessary compensate those disadvantaged by the reform proposals, have been neglected.

### **3.8 *Air***

Before deregulation Tasmania, like the rest of the country, was served by two operators, who ran parallel flights within a few minutes of each other, at similar fares, and with similar levels of flight service. The NW Tasmanian airports had already been taken over by port authorities and were being run as separate businesses. For Devonport there was a daily direct jet service to Sydney.

Since deregulation Tasmania is served by two operators (or their subsidiaries) who run parallel flights, at similar fares, with similar levels of flight service. The Launceston and Hobart airports have been transferred to local operators, and there is no longer a jet service between Devonport and Sydney. The services to the North West Coast of Tasmania are in comparatively inferior aircraft, with lower levels of in flight service than we enjoyed in the 1960s, and Hobart and Launceston are facing the prospect of their services being reduced to prop-jets. This has been made possible by the break-up between the main and subsidiary airlines, which prevents cross subsidy of less commercial routes, and relieves them of any suggestion any suggestion of USOs similar to Telstra's.

Despite claims of general reduction in fares this has not led to equal benefits. With the subsidiary airlines quarantined from their masters the spoils have gone mainly in incentives such as frequent flyer awards and other reductions aimed at securing the bigger share of the market lying along the Melbourne – Canberra – Sydney – Brisbane axis.

The same unevenness of benefit is applied geographically. The greatest advantages have been in international flights (and will increase temporarily when competition reduces the airline industry to 5 conglomerates). Domestically the biggest rewards have been on the main routes and rural and regional Australia has suffered its usual comparative disadvantage.

### **3.9 *Telstra and communications***

Claims about Telstra constitute possibly the most distorted topic in Australian politics. We suggest that Telstra is similar to most telecommunication services in the world. All have reduced prices in response to technological changes in efficiency and lowering of component prices, without any correlation with private/public ownership. We suggest, too, that overseas systems are not generally superior to Australia's, but vary considerably between city and country in terms of provision and range of services.

Certainly it is common for people from rural USA to compare their services unfavourably with ours.

We welcome the government commitment to provision of services to rural and regional Australia, though we are concerned about the means of paying for it (see section on CSOs and USOs). We must stress that this should mean not just a maintenance of existing phone services and local call charges, but providing adequate access to the internet and other services as a means of improving marketing, e-commerce, home employment and access to government services in rural and regional Australia. This should be not merely at parity with metropolitan Australia but at high levels to accelerate change.

Two other matters should be mentioned. The country as a whole would have benefited far more by concentrating on implementing technical changes which might improve industrial performance and marketing rather than by providing yet more TV outlets to recycle programs which should have been given a decent burial after their first appearance. There is simply not the material available for Television to justify expense on more channels, and no sign that there ever will be.

We also deplore the decline in service in almost all government departments following the introduction of automatic telephone answering services. They are almost inevitably undersize for the customer load, inadequately staffed when personal contact is required, and cause frustration and cost to the taxpayer, and to the extent that the rural population tends to rely more on telephone contact it is another burden on rural and regional Australia.

### ***3.10 Auspost***

Threats to services provided by Auspost have not been an issue in this area, partly, we suspect, because all minor post offices have been transferred over the years to agencies in shops. Local private courier services and AUSDOC are providing adequate specialist services. We would anticipate that Auspost will become increasingly unviable as other communication systems develop, but see no alternative to its continuation as a public service. It may become like a "parliamentary train" but at least it will be there.

### ***3.11 Local Government and competitive neutrality***

It will not be surprise that reforms in Local Government were in progress before Hilmer and were part of a world wide change towards a more business oriented approach.

The reforms, their benefits, disadvantages and effects can be summarised as:

#### **3.11.1 Competitive neutrality**

This, which includes compulsory competitive tendering refers to the activities of councils which bring them into competition with the private sector. Much of the incidence of this depends on the size and location of councils. Smaller councils might tend to contract out services rather than carry a permanent department or section in, say, road maintenance. On the other hand a small council in a remote area may be the only provider of engineering services for itself and its surrounding district. In larger communities there are also varying provisions in responses to local needs, circumstances and opportunities. The introduction of CCT has therefore had varying effects in different councils. In some areas it has been virtually

an irrelevance if the private sector is not interested in inconvenient contracts. In others most business is tendered out or is tendered but the Council itself may be a tenderer.

There have been some reported difficulties with the process in rural areas including disruption to local employment in favour of larger contractors from cities, and in the questioning of the former practice of allowing a margin for local inputs of labour and materials in the tendering process. A problem in Tasmania has been the very wide definition that state treasury has used of "significant business activity" with the number denoted "significant" being substantially higher than in Queensland. A more general reaction, however, has been to embrace the tendering process, to use it as a yardstick for comparison with private industry, and to find that it was not uncompetitive, largely because so much trimming had been done in earlier years. There were some exceptions in Victoria, where councils had managed to fight off earlier reform proposals.

### **3.11.2 Separating functions**

As with government business enterprises Hilmer found that there was some conflict between regulatory and supply functions of councils. This was less of a problem where infrastructure such as water and sewerage had been taken over by other enterprises. It was also less of a problem because the councils did not enjoy "the shield of the Crown" and had a clearer distinction between the two functions.

### **3.11.3 Corporatisation**

This was also somewhat limited in scope by the earlier loss of major infrastructure provision. It has been a benefit that, in setting up joint authorities to undertake activities such as regional refuse disposal sites, the mechanism for joint action had been put in place, though this predates Hilmer. On the other hand the move of such services from the rate base to full cost attribution has caused massive increases in the cost of such services for local industry.

### **3.11.4 General benefits of reform**

The general focus of reform in Local Government has been towards a greater focus on the customer, on business like approaches to organisation, market research, communications, and accountability. On the other hand there has been upheaval in the workforce, particularly as reform and amalgamation has become a long running saga. A greater problem is that there is a feeling that the council has become more remote from its community, and the elected members remain uncertain of their role in an organisation which is increasingly dominated by professional senior management teams. The result of the latter

might be the cause of voter resentment similar to the One Nation reaction at some time in the future.

### **3.12 Government policies**

In the Region's previous submission to the Senate Committee on Unemployment in Rural and Regional Australia a number of Government policies were identified as contributing to the problems of non-metropolitan Australia:

#### **3.12.1 Marginalisation**

The perception that the planning of government policy is driven by market research in suburban Melbourne and Sydney where there are most of the marginal seats, and that this leads to neglect of the problems and needs of rural and regional Australia.

#### **3.12.2 Reduction in government activity**

For the present government the state represents an unwelcome interference with the rights of the individual. Reduction in government activity is therefore not driven only by economic considerations but by the belief that assistance should be based on "mutual responsibility. Whether or not this is valid is immaterial; when government policy is based on the belief and assistance is reduced the effect is felt more severely in the already distressed rural areas.

The same is true when there are reductions in all Federal programs and in grants to the states, or when labour market programs or grants to Local Government are cut back. The effects are uneven and the eventual beneficiaries are income tax payers in the cities.

It has been pointed out that a considerable amount of resources of capital flow out of the state in Compulsory and private superannuation funds. We believe this to be true of the whole of rural and regional Australia. It is not easy to suggest a way of countering this, but it is something to be considered in dealing with the regions, since that outflow is unlikely to be returned for some years yet.

### **3.13 Deregulation**

The process of examination of state laws and agencies is well under way in Tasmania. As in a number of other instances the questions phrased by the investigation imply that the burden of proof is with the proponents of regulation and orderly marketing. This puts an undue emphasis on driving down prices at the expense of other issues such as the proper inspection of meat and other processed food. In these circumstances the statement of cost

savings is relatively easy to quantify but the benefits of regulation much harder. This simple answer should be that the cost of regulation may be identifiable, and may even be such that they are keeping out other competitors, but the costs of relaxing regulation carry risks which can prejudice a whole industry, possibly a whole export industry, and such relaxation needs more justification than mere cost cutting.

The other aspect of the deregulation process which causes concern is the apparent limitation of the consideration of costs to those which are reflected in the price to the consumer. The original Hilmer proposals did not include the provisions for cost-benefit analysis —they were put there at the insistence of ACOSS and the unions who suspected — with some justification — that the Hilmer process could be used against the interests of the disadvantaged. In the case of the Tasmanian dairy industry, which is just beginning its inquiry the immediate cost of deregulation to the dairy farmer is the return of 30c per kilogram of milk sold to the TDIA. If the Dairy Industry Act 1994 is repealed the likelihood would be that the larger, and therefore more competitive Victorian dairy industry, would undercut Tasmanian producers, especially at times of surplus. The result would be more hectares covered with *eucalyptus nitans* plantations, further unemployment and the loss of skilled rural managers. If the farmer cannot make a living, even with a small amount of subsidy — particularly in competition with farmers in other parts of the world — there is no earthly point in reducing his income still further in pursuit of dogmatic theory. If Australia wants a rural sector in its economy it has to be paid for. If it is not to be by even the limited subsidies in place at the moment, or by Co-operative marketing schemes, it will have to be by increased prices for consumers, further relieving the taxpayer at the expense of the consumer.

### ***3.14 Labour market and financial deregulation***

The risk is that repetition will become boring but the plain fact is that freeing the channels — of either financial or labour mobility — facilitates what is, in the present and immediate future level of world commodity prices, a one way flow from the regions to the cities. Eventually the opportunity for cheap investment may bring profits from the service industries back to rural areas, but it is more likely that investors will follow their global instincts and go off shore looking for cheap labour and lack of regulation

### ***3.15 Environmental policies***

The growth of environmental legislation and regulation, and the exposure of agriculture and industry to increasingly critical observation by neighbours and customers has further disadvantages rural producers and manufacturers. It is a paradox of the late 20<sup>th</sup> century while governments and industry leaders talk about reductions in red tape and

bureaucracy the amount of legislation and regulation grows exponentially. This in itself is not the major problem, though it could be that some environmental zealotry is exaggerated and misplaced. The difficulty is that the costs of changed environmental standards do not get passed back to those that demand the change but remain with the producer; again the advantage is with the metropolitan consumer at the expense of the rural producer.

#### **4 Misuse and missed targets**

Apart from problems caused by Hilmer and associated reforms there are a number of examples of the proponents of reform to avoid action which might seem too difficult or possibly not favoured by prevailing economic and social policies. Some examples are given below:

##### **4.1 *Tax collecting***

Hilmer warned of the danger of state treasuries regarding the reforms as a license to print taxation demands. This has been largely ignored, particularly in Tasmania, where there has been a steady rise in tax-equivalent assessments, dividend payments and other raids on cash reserves and asset replacement funds. Generally this takes place on agencies and enterprises which are not in competition with the private sector, and these have nothing to do with maintaining a level playing field. Once again the overall cash flow which results is in the direction from the general public throughout the state via indirect taxation of necessities towards general government funds the majority of which are spent in state capitals and larger cities, particularly on health and education, facilities which cost the rural users more in travel time and associated costs to access.

##### **4.2 *CSOs and USOs***

In many ways the failure of Hilmer to press home the implications of his perspective on government accounting and the reluctance of governments to recognise their responsibilities can be seen in the treatment of CSOs and USOs. If a government, at any level, is going to insist on reduced costs for a class of people, or on provision of uneconomic services it should be at the expense of the government and paid directly from general government sources, not from the revenue of the utility at the expense of other users of that utility. The Tasmanian government gives pensioners a rebate of 25% of their municipal rates. It does so directly, from consolidated revenue, not by telling Local Government to give a rebate from Council revenue. This is a proper treatment of CSOs unlike, say, the same



government's treatment of pensioner remissions by the Metropolitan Bus services, which are paid for by other users, thus increasing fares and reducing the attractiveness of bus transport.

The same transparency that is shown in rate remissions should occur across the board, notably to Telstra. While the government insists that Telstra should maintain services to rural and regional Australia it should be prepared to foot the bill. Only that way is the true accounting for the performance of Telstra to be achieved. Furthermore it will give a truer picture of the consequences of privatisation if the responsibility for subsidy is kept with the government and not conveniently shunted off to other users and shareholders.

#### **4.2.1 Professions**

The news that Hilmer would reform the restrictive practices of lawyers and doctors brought temporary light relief back in 1994, as probably similar news did in 1894 (about the time that GB Shaw described all professions as "conspiracies against the laity." Needless to say the lawyers discussed matters together and found out that they were all sufficiently reformed, except for the distinction between barristers and solicitors, which did not apply universally anyway. The doctors still manage to control entry to their profession by economic criteria, refuse to recognise valid foreign qualifications, limit immigration of professionals and join the crowd catering for the pickings of city practice in preference to the rigours of country practice. Luckily there still doctors whose ideals and motivations are not financial, but they must be very tempted.

Apart from initial references there has been little action taken; too hard perhaps?

#### **4.2.2 Supermarkets**

A particular example of a perceived failure of Hilmer's policies and the neglect by the NCC of a key area of the Australian economy which has been mentioned frequently during investigation of this topic has been the increasing power and the increasing use of their economic muscle by the supermarket duopoly, in what would seem to be clear breaches of S.46 of the Trade Practices Act.

This has been especially significant for rural producers who have almost inevitably been price takers for a number of years. The effect in North West Tasmania has been doubly felt because of its high proportion of secondary processors, canneries, abattoirs, fish processors etc. Not only are farm gate prices depressed by low payments by the supermarket chains but the processing companies have been made to trim labour forces and add to the region's unemployment.

This general use of market strength by the duopoly is not illegal – though it might be in America where regulation is regarded as more necessary in order to correct the consequences of competition. What is more objectionable are practices which are marginally or completely in breach of the Trade practices Act. Anecdotal evidence of this has included:-

Use of unsubstantiated QA specifications to lower an agreed price, occurring after the goods had been delivered and without any recourse for the supplier. The lower charge was described as a “fine”.

Forced sale of a successful business in Devonport to a new supplier after a threat to flood the local market with cheap “specials”.

Enforcing lower prices on a one-man butcher shop by threats of trading at a loss in order to bring the butcher into line.

Unilateral reduction of agreed prices. The protest was met with the cancellation of a substantial order (described as a “slap on the wrist”)

These (and no doubt other practices) may be regarded as fair game by free marketers, and have probably been around since Moses first made Pharaoh an offer he couldn't refuse. The consequences, however, are disastrous for a rural and rural based economy. There is no one further down the line for the farmer, the majority of whom have already quit farming as a full time job.

What was also disturbing in the cases mentioned above was that the injured parties were not aware of the Trade Practices Act and the illegality, as opposed to the moral repugnancy, of some practices. At best there should be a wide ranging inquiry into the power and practices of the supermarket chains, At worst there should be an extensive information program, aimed at suppliers, informing them of their rights and the ways to find remedies for their problems.

### **4.3 *Overstated benefits***

Part of the reason why Hilmer's reforms are now regarded as less than effective is that the benefits were overstated in 1995, partly out of a misplaced enthusiasm to include the whole reform agenda under the Hilmer umbrella. There were also flaws in the ORANI modelling program including the use of data from the 1980s which was clearly outdated. The biggest failure came from the failure, partly by the media, partly by politicians, in interpretation of what the Commission actually said. The statement was that “... in the long run, once all adjustments have taken place there would be an annual gain in real GDP of 5.5% or \$23 billion per year.” This was taken by political supporters to imply a growth factor which

would bring ever increasing benefits. Since the program was brought in by a Labor government which still has difficulty understanding why it did it, and the coalition was hardly likely to oppose it, there was not a lot of critical reaction. However, given that the Commission included reforms dating back to the 1980s it is probably fair to say that "the long run",- a still uncompleted marathon but a less gloomy timeframe than Maynard Keynes's description of a long run - may be ten years, i.e an annual average growth rate of 0.55% or \$2.3 bn. Even at the end of ten years an increase in GDP of this amount is only going to bring in an increase in revenue of about \$800 million. As we know, this is a sum which can be conjured up just by fiddling the parameters on the income forecasts of the Federal budget.

Real gains in employment were forecast at 0.4% or 30,000 extra jobs. As we know, there have been real job losses, after allowing for population growth and the employment/population ratio is lower than it was in 1989. We should remember that a conservative estimate of the benefits to government of moving 1 person from unemployment to full employment is about \$25,000 per annum or \$1 million for 40 people. The benefits to the government (\$0.8 – 1.2 billion, depending on treatment of asset sales) could then be wiped out by the loss of 40,000 jobs – which as it has turned out is more accurate than the Commission's 40,000 growth.

The other problem with the forecasts is that it can be clearly shown that much of the growth in the model would have occurred anyway, as has happened in similar sectors in other economies around the world. This means that very little benefit can really be ascribed to Hilmer, and by the time we have absorbed the Asian and Russian crises and are into the world wide recession of 1999-2000, gains from Hilmer will be a laughable irrelevance

#### **4.4 *Red tape***

There is nothing like a bureaucrat introducing reforms for producing explanations, information kits, guidelines, application packages and rules to ensure that the freeing up of restrictions should not be taken too literally. Hilmer has become a growth industry in itself. Where, in the IC assessment of 1995, was the cost of the NCC, the round of enquiries into state and federal legislation, the cost of redrafting legislation, the cost of oversight of the process and the cost to government and industry of dealing with the changes? Or was this the major part of the supposed growth in GDP?

#### **4.5 *Accounting***

We have mentioned accounting practices in reference to CSOs and to changes in Local Government. The Commission should be aware that there has been a considerable

improvement in LG accounting and accountability through the adoption of accrual accounting, probably a more significant improvement than any of Hilmer's reforms. We find it surprising that Hilmer did not recognise the value of this in reference to government performance. State governments have moved some of the way towards similar reforms, but the impetus has been lost recently. Meanwhile the federal government lags behind. Preferring to avoid making provision for asset maintenance, avoiding funding of future liabilities, and including asset sales in annual cash flows – hardly giving a lead by its own microeconomic reforms.

## **5 Conclusion**

The recurrent pattern that emerges is that Hilmer and associated reforms have been regressive in their overall effects; that this had not been foreseen and that measures should have been put in place to alleviate the disadvantages caused by the implementation of the reforms. Further it is clear that the long term decline in rural and regional Australia resulting from low commodity prices, loss of purchasing power and reduced capital inflows is compounded by the geographically recessive effects of the reforms which favour the new, information based economies and metropolitan areas.

**Meeting of Local Government General Managers.**

**Professional development Program**

**Shearwater Country Club, August 16th & 17th. 1995.**

Alas, poor Fred.

An occasional paper on the Hilmer reforms and Local Government.

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Something that we might miss when the Republic finally comes will be the oddities of the British Royal family - present and past. Take for example the record of the monarch's eldest sons, most, but not all, Princes of Wales. Apart from the most normal, Edward III, who spent much of his reign conducting weapons tests with longbows in Metropolitan France, these first born have mainly been either spectacular playboys - Henry V; Charles II; George IV; Edward VII and VIII; and Edward II in a somewhat different way, or they have failed to make it either to the throne or to manhood. E.g. Edward the Black Prince; Edward, son of Henry VI; Edward V & VI; Arthur, elder brother of Henry VIII; Henry, son of James I; James and Charles the pretenders; all of Queen Anne's 17 children; Edward Duke of Clarence, thought by some to have been Jack the Ripper; and Edward VIII who makes both lists. There was, in the middle, between George II and his grandson George III, a Prince of Wales called Frederick, a harmless fellow who died in 1751, and about whom an anonymous British ballad maker wrote:

Alas, poor Fred,  
Who was alive, and is dead.  
Had it been his father, I had much rather.  
Had it been his brother, still better than another.  
Had it been his sister, no-one would have missed her.  
Had it been the whole generation, still better for the nation.  
But since 'tis only Fred. Who was alive, and is dead.  
There's no more to be said.

And so. Alas poor Fred. Not that Professor Fred Hilmer is dead. Rather, he has suffered the expected fate of the young man to whom Kipling's poem "If" was addressed with the warning:

"If you can bear to hear the words you've spoken,  
Twisted by knaves to make a trap for fools."

For Fred has strayed from the relatively simple world of academic business studies into the jungle of politics and now finds that a considerable amount of commentary associated with him was not in fact in his report, and that his cautions and qualifications have been overlooked whenever convenient. It is not surprising; his report was essentially a series of motherhood statements, and like all motherhood statements it is over simplistic. Like motherhood itself it gives rise to great expectations, often exaggerated. I want to continue this analogy for in this case not only has the young mother's beauty

been over-praised, her dowry has already been distributed among the in-laws, her real virtues and domestic skills have been neglected, and the relatives are planning how best to get her onto the streets to make more money. That is to say that the problem with Hilmer is that its benefits are being over-inflated, the State and Federal Governments have wrangled over the spoils which should have been put back into lower infrastructure costs, that the Governments are slow to tackle the most important reforms, and will probably put them in the too hard basket, but that they are working very hard to maximise increases in revenue to the detriment of the general taxpayer and utility user.

There are supposed benefits. According to the Industry Commission in March this year, GDP will rise over the next six years by \$23b or 5.5%, ie \$1400 per household. There are some problems with this. It is a very hypothetical figure based on untried computer modelling, using 1986-87 input figures, and including many reforms since 1990 which should already be taking effect. It could be that at least 25% of the supposed Hilmer benefits have already flowed into the economy. I hope you have noticed it and are spending it wisely.

Whenever, and if ever, these benefits eventuate they will not flow evenly across the States, and particularly not across Bass Strait. Generally "to him that hath it shall be added" and the same will occur across the population with benefits flowing to the rich at the comparative, and real, expense of the poor. It's called trickle up theory, or the Sheriff of Nottingham technique. Robbing the poor to give to the rich. It works if the Sheriff uses the poor people's taxes to buy a new chariot from Rolls Royce just up the road in Derby, but not if he goes on a crusade and picks up the latest model from the Bavarian Chariot Works.

The most productive parts of the reform program will, I believe, be the most difficult to achieve. They are meant to flow on from reforms to the Trade Practices Act, and refer to anti-competitive practices in business and to the conduct of the professions. The difficulty is inherent in Hilmer's first premise. If, as he claims aggressive and selfish motives (competition) are the strongest forces in producing efficiency, they will also be the strongest forces in resisting reform. Can you see the AMA saying that we should bring in more doctors from overseas to provide competition and lower costs to the patient? Can you see the peak law bodies saying that there is a need for reform? In fact they were the first cab off the rank in 1993 to tell Hilmer that everything was perfect and that there was no need for reform. That the law is cheap and quick.

Will the AMA say that liquor should be sold in super markets in the interests of competition. Will the gamblers and the petrol ~~traders~~ allow open stock shot holes and petrol sales.

The reality is that of the \$23b of projected benefits the \$14b in lower economic costs is uncertain and illusory, but that the \$9b of revenue to State and Federal governments is only too real.

This leads me to a brief consideration of the social implications of the Hilmer measures. There are three major thrusts of the reforms. One is the laudable attempt to attack anti-competitive practice in the private sector. Second is the equally laudable intention to improve infrastructure and reduce costs to industry. The third is to break up the monopoly structure of Government business enterprises. In part this is still laudable. The businesses of regulation and supply should be separated, prices charged by Government should be subject to public scrutiny. The concept of "the level playing field" and the need to impose taxes on Government enterprises is far less certain. Even Hilmer recommends it only when Government businesses are in competition with the private sector - something which Government leaders have already conveniently forgotten. And then - what will happen to the money - \$9b in increased revenue. Let us assume that the moon is made of green cheese and that the Governments, Federal and State, treat the measures as revenue neutral and reduce overall taxation by \$9b. The most likely reduction would be in income tax, and taxes on business. Thus there will have been a huge tax transfer from the wealthy to the everyday consumer of public services. It's Paul Clayton's GST. The one you had to have when you didn't know you were having it.

But of course that is not what will happen with the money. It is not that state treasuries actually need it. Let Sir Humphrey Appleby explain. "Taxation isn't about what you need. The Treasury does not think about what it needs and then think how to raise the money. The Treasury pitches in for as much as it thinks it can get away with and then thinks how to spend it. If the Government started to give money back just because we didn't need it we would be breaking centuries of tradition."

So, this money will be a windfall for federal and State treasuries. Instinct should tell everyone that if Paul Keating and the State Premiers have a wonderfully happy COAG meeting and come out saying that they have win-win situation, there's no good in it for the taxpayer. You may call me a cynic, but to quote Sir Humphrey again, "A cynic is what an idealist calls a realist". I am too much of a realist to swallow the belief that Fred Hilmer in his starry eyed advocacy of the benefits of laissez-faire neo-classical economics has discovered a widow's cruse which is daily replenished with free lunches, and that Paul has said " Oh goody, I must share this with the States."



Even if the revenue is not returned the shift to indirect taxation is still there. Note the State's failure to be consistent with Hilmer in announcing its "reforms" to the Hydro Electric Commission <sup>earlier this</sup> last <sup>year</sup> month. It did not transfer the responsibility for pensioner rebates to consolidated revenue, did not remove the 7.5% government surcharge, which is clearly not a commercial measure, and of course did not identify the disparity in charges between the major users who consume two thirds of the power and pay one third of the cost, and the rest of the public. Nor, of course, did it make public the unit price which those special users pay. At the first fence in the Hilmer steeplechase, the Government failed to get off the ground. It was also interesting to see Mr. Gray, Minister for Energy, coyly admit that power users will have to pay for the extra taxation incurred as a result of Hilmer, though he didn't say how much (that would be too transparent). He did say <sup>it would not take \$11m</sup> "But the Government will pay it back in other forms of taxation," He then realised his mistake and corrected it to "The Government will not have to raise taxes that they might otherwise have had to." And the pea disappeared once again under the thimble.

More difficult to identify, or to justify are the non-commercial fringes of service provision, to remote country areas, to disadvantaged groups, to minorities, or minority interests. In the big picture the retreat of Government from these non-commercial operations has the potential to accelerate existing infrastructure problems which might outweigh any Hilmer benefits. Already we have the situation where Australopolis, the coastal Woolongong-Brisbane axis, with branch lines to Melbourne and Canberra, is complaining of overcrowding, shortage of resources, and the costs of infrastructure. Meanwhile the country districts, and South Australia and Tasmania (itself one big CSO), go on losing population and their operations, both public and private, become ever more commercially unviable. We talk about Tasmania gaining \$15.6m from the third tranche in six years time. By then, on present population trends, we will have lost \$30m per annum (\$60m gross) in FAG entitlements because of decline in population share. We, and other parts of the country need social policies which counter the commercial trend to suck the country's population and productivity into one area at the expense of both the sucker and the suckees. I made a plea to the mainland managers. "Send us your tired, your poor, your huddled masses yearning to be free". Introduce transportation for breaches of by-laws. We need anyone we can get; let me qualify that. West Australian business men and former politicians, NSW police under current investigation, and Jeff Kennett, need not apply. Actually we are investigating our own solution to the population problem. At the 1996 census we have arranged for the ABS to do a head count instead.

I spoke earlier of distortions to Hilmer because of the association with other agendas. This is particularly clear with the imposition of reform in the water industry. Typically most of the reforms have already taken place in the large GBEs, so again the amount to be obtained is tenuous and will merely accelerate the change from rate based payments to service charge plus pay by use. This is probably not socially beneficial, though it will certainly help the commercial sector. But the water reform program is not about social reform, or even commercial reform. It is about decreasing consumption - partly to defray costs of new headworks, partly I fear, as an environmentalist inspired knee-jerk reaction "Water is a resource, all resources are scarce, therefore water is a scarce resource everywhere" regardless of rainfall, run-off, or use. So the whole country has to have a price regime based on higher prices to reduce consumption. This is called "sending the right price signals to the market". It could be justified in a dry area, though it is by no means a fair way of rationing a resource, but the same policy is being suggested for a whole continent, 'from the tropics to the snow', despite the fact that here in North West Tasmania for example we have very adequate rainfall, underutilized headworks, and a low population. We should be able to lower our prices and draw attention to the availability of water, not be tied to an inappropriate national policy. In any case it will not prevent the need for new headworks, only planning for closer settlement will achieve that.

What also amazes me about Hilmer is the way that State Premiers have so carelessly handed power to Canberra. The comment was made that Australia is now a nation without borders. It may well also be a federation without states. Keating, I'm sure, cannot believe his fortune. Without having to invoke a United Nations Treaty, without recourse to the High Court, he has found the State and Territory Premiers thrusting the last remaining controls of the economy on him, for a paltry maximum annual payment of \$600m. It's the worst deal since Esau sold his birthright for a mess of potage. Industry policies, control of professional standards and practice, government businesses, price control, now join health, vocational education and forestry, as the latest agencies in which the State merely administers national policy. You may believe that this shift of power is a good thing; and in the national interest. Perhaps so, but I would prefer that it should be decided by some reference to the people than by a series of administrative shifts in power, oiled by ludicrously small compensation.

Let me come back to where Government is still real, where managers are omniscient, and politicians know their place. A recent paper by Secretary of the Treasury, Don Challen, to the Local Government Association of Tasmania annual conference speculated on, rather than outlined, possible

effects on Local Government. I must say that it was nice of the State to tell us that Local Government was part of the agreement, even if not consulted, and not represented at the meeting (~~an ongoing consequence of Peter Reith's infamous campaign in 1988~~). It was evident from the speculative nature of Mr. Challen's comments that from the Tasmanian Government's point of view inclusion of Local Government in the COAG agreements was not so much a policy as a gift, and one which they had no idea what to do with.

His speculations ran into several main channels:

- A. Tax equivalence regimes and full cost recovery, for the significant business activities of councils.
- B. The whole question of reciprocal payments of rates, land taxes etc. between state and local government.
- C. Prices oversight of areas in which Councils have a monopoly provision.

What is a significant enterprise? Challen is now suggesting that the criterion of business activity is whether it is provided, actually or potentially, by the private sector. I suppose water and sewerage could be, but it is doubtful - car parks, garbage collections? Yes. So could accounting, rate collection, running an art gallery, a sports centre, a football oval, dog catching etc. etc. etc. In other words almost everything that Local Government does in providing for the amenity of its citizens. Obviously the criterion is not a sound one, hence Challen's use of the word significant, but apart from the difficulty of defining what is significant, Mr. Challen is falling into the trap of confusing purpose or intention, and size or amount. It reminds me of the story, no doubt apocryphal, of George Bernard Shaw and the Duchess of Middlesex. They were dining together when Shaw suddenly said, "Duchess, would you sleep with me for £10,000. The Duchess said, "Well, Mr. Shaw, I would have to think about that." A little later Shaw said, "Would you sleep with me for ten bob." "Really, Mr. Shaw, what do you think I am." "We've already established that," said Shaw. "Now we are merely haggling about the price." It is this confusion about the business of Government and business in Government which worries me. I'm sure that, on reflection, Mr. Challen would not want it applied to the State Government, where there is potential for private sector provision of education, medicine, accounting, prisons, police, even advising the cabinet on financial management etc. etc. etc. Even in what are regarded as Government enterprises and Local Government trading activities the distinction is blurred and results from historic

circumstances. The provision of water, from the days of the parish pump, is a social utility - a health issue, not a business venture. In some circumstances it is necessary to aggregate the supply systems beyond the boundaries of the local community. That does not change the purpose of the provision. It does not become a business because it serves more people. Nor is the purpose of aggregated authorities changed because they lie uneasily between State and Local Governments and it has been usual to run them through commissions or boards rather than in agencies. They remain a utility which should be provided as cheaply as possible and not used to subsidize central government departments or disguise the raising of taxation. This does not remove a responsibility to follow best current practice in the running of the utility; in accounting standards, quality control, customer focus and reliability - in fact higher standards should be required in the public sector. It is a question of purpose. A doctor's surgery may do all the right things, business wise, but the doctor's aim remains the art of healing.

The next problem with regarding Councils' activities as businesses is that many do not make money, even if the private sector might co-exist in the same field. If Councils, and State Governments, had to achieve full cost recovery of cricket ovals the game would cease to exist in Australia; similarly the Arts in all forms would disappear, and there would be nowhere for the community to gather together. You may say, "So what, if the people want to pursue minority interests they should pay the full cost." This may be true, but while federal and State Governments are willing to claim that they have legitimate purposes in government which do not involve cost recovery they should recognize that the same exist in local government.

The provision for rationalisation of taxation arrangements is an ongoing discussion and we all it, though it is not really a part of Hilmer.

Prices oversight should be welcomed by Local Government. It will identify how much councils have trimmed their own costs in recent years, and how much increase there has been in collections on behalf of the State Government. Similarly, inquires into the activities of most <sup>Government Business</sup> state enterprises <sup>such as water</sup> will reveal that inflated costs have essentially been the result of Government policy and management. There are a number of very juicy worms in a number of cans.

There is one aspect of the COAG agreements which you should study well. Section 3 (6) of the Bill says that taxation equivalence regimes etc. only require implementation to the extent that the benefits outweigh the costs, and a list of matters to be taken into account in a cost benefit study is added

I think you should do your best to ensure that your governments abide by the agreement they have signed, and insist that these processes are followed before taxation is introduced.

Let me conclude with what I see as my major concern with Hilmer. It is not that it is wrong in advocating reform. All our practices in Government and business need regular review. It is that it is being used as part of the general attack on the existence of Government which has been a feature of the last quarter of the 20th Century. We see it in many ways, in the rent-a mob reaction to decisions about the environment or recently about foreign policy, in the mindlessly critical attitude to our politicians. We see this anti-government attitude in its extreme in the far right in the United States, and its manifestation in the Oklahoma bombings or the Tokyo gas attacks. The public sector, particularly at the local level, is not a conspiracy to deprive people of their rights, or private enterprise of its business. It is the expression, however imperfectly arrived at, of a community's needs and aspirations, and its willingness to unite to meet those needs. It recognises that there are differences between the aspirations and needs of different communities. It provides facilities which will be used by people at different stages in their life, or with different interests, in the knowledge that over a lifetime the costs and benefits generally even up. It does so in many cases because of the failures or neglect of the private sector, or because strict "user-pays" means there would be no users. It needs to have the confidence to say to the Hilmers of this age, the pusillanimous abdicators of responsibility, "We are in the business of Government, our purpose is not to make money. It is to spend the money entrusted to us by our community, to the best benefit of that community, in accordance with their wishes and in the most efficient way possible." We are not running businesses, and you should not be running government.

**Parliament of Australia**

**Senate**

**Senate Employment, Education and  
Training References Committee**

**Regional employment and unemployment inquiry**

**Submission by  
Devonport City Council**

**April 1998**

## **Introduction**

### ***Relation to regional submission***

The City of Devonport is a member Council of Tasmania's West North West Councils. As such it fully supports the submission made by that organisation. Therefore this document should be seen as supplementary to the regional submission and while it touches on matters which may be of particular concern to Devonport it does not seek to detract in any way from the need to consider the problems of the region as a whole.

## **Devonport and its neighbours**

### ***Description***

Devonport is a city of about 25,000 people situated on the estuary of the Mersey River. With an area of only 120 sq. km it is the second smallest municipal area in the State.

The area was settled in the 1950s and grew steadily in the late 19<sup>th</sup> century until the amalgamation of Formby and Torquay, the towns on either bank of the Mersey, to form Devonport in 1892. The interwar period was stagnant but rapid growth took place after the war with the population growing from about 6,000 to 20,000 in a 25 year period. The City is now the largest population centre on the Coast and is the service centre and port for a sub-region of over 50,000 people, including the towns of Port Sorell, Latrobe, Kentish, and Ulverstone.

### ***The port of Devonport***

The port of Devonport, now a corporation, is central to the economic well-being of the region. It has specialised facilities for handling petroleum products, livestock exports, dairy produce, bulk cement, fertiliser, wheat and china clay. TT Line and Coastal Express Line provide general cargo container

and roll-on roll-off services (9 return trips per week to Melbourne) and the port is the passenger terminal for Tasmania. Budget papers for 1997 show cargo throughput of 1.94 million tonnes and 493 ship visits.

The Corporation also operates Devonport airport which carried 130,000 passengers in 1995-6.

### ***Industry – primary and secondary***

A considerable part of the industrial base of the sub-region is based on processing local primary product eg paper at Wesley Vale, vegetables at Simplot (Devonport & Ulverstone), meat at Devonport City Abattoir, milk products at United Milk Tasmania, cement at Goliath (Railton). These industries are vital to the State, being based on renewable resources, and to the City because of the other industries and infrastructure which support them, and which, after some recent uncertainty, may offer some stability in the future. Apart from supplying products for value adding, local primary industry has been effective in recent years in seeking new markets and products. Poppy growing and processing is well established and has been joined by pyrethrum; vegetable growers have diversified into crops and varieties suited to the Asian market; orchards have been re-established and restructure of local processors and marketers of primary produce should re-invigorate local production.

Two important industries which survived the financial turmoil of the 1980s are Australian Weaving Mills and Tascot Templeton Carpets. Neither use local produce but they are substantial employers who have repositioned themselves in specific markets and have survived rationalisation of their industries.

### ***Tertiary industry and administration***

Much of the tertiary industry of the City depends on servicing the agriculture of the region. In particular the transport industries feature strongly with cold



storage and packaging also important. Wholesale trade is also prominent, resulting from imports from Melbourne.

The size of the City and hinterland makes it a focus for services and administration for a number of federal and state government departments and agencies. Cut backs to services have inevitably contributed to the numbers of unemployed in the City.

### ***Demography and lifestyle***

In some respects there is reason for confidence in the City's future. The port's activities have continued to grow; the last major industry lost was Ovaltine in 1991 and new factories have been established by UMT and Visyboard. Returns on agriculture have been low but production continues at the same rate. Retail shopping has reported increased activity, which may be at the expense of outlying areas; Australian Weaving Mills and Tascot Templeton carpets have been saved from accelerated tariff reduction and service industries are generally surviving if not prospering.

The problem is that despite these signs the demographic and labour force indicators show that unemployment seems to be intractable.

Census figures from 1996 show that for the first time since the depression Devonport has lost population. This is serious in itself but the City is also well served with elderly person's homes and is a favoured retirement centre. The net loss of population also has to take into account the inflow of the elderly and indicates how great the outflow of young people has been. This gives Devonport a median age and dependency ration about two points above the state average, and a masculinity ration well below national and state figures. A similar pattern of aging is developing in the surrounding area with

proportions of the population over 65 as follows:

Devonport	13.5%
C.Coast (A)	14.3%
Latrobe (A)	13.8%
Tasmania	12.3%
Australia	12.1%

Incomes in Devonport continue to lag behind state and national levels as is shown in the table below:

	1991. \$ pw	% of Aus	1996 \$ pw	% of Aus	Increase %
Devonport	223	83.2	238	81.5	6.72
Tasmania	237	88.4	257	88.0	8.43
Australia	268	100	292	100	8.95

It is not so much the lower levels that are a problem, we must expect that in regional areas; but that the disparity is increasing and the rate of growth is lower.

## Unemployment and welfare

Comparison of Devonport 1996 census employment figures with the region and nation show:

		Devonport	Mersey-Lyell	Australia
Male	% employed	56.6	60.5	64.3
	% part time	22.5	18.1	18.1
	% participation	69.8	69.8	71.4
	% unemployed	13.4	13.4	9.8
Female	% employed	39.2	46.7	48.8
	% part time	51.2	50.9	45.5
	% participation	44.7	46.7	52.8
	% unemployed	12.4	11.1	8.3

Here we can see that the rates of underemployment are higher for Devonport than the region as a whole, an indication that in the City where service industries should have taken up the jobs shed by manufacturing this has not yet occurred. These figures are compounded by two factors. One is that the rate of Disability Support payments is running about 2% higher for both men and women than in the region as a whole. The second is that the rates of disadvantage are broadly similar in Devonport's neighbours, Latrobe, Kentish and Ulverstone.

## **Transport**

Devonport is excellently served by its external transport systems with regular sea and air links with the mainland and good road access to east and west. Paradoxically, it has a very limited internal transport system with no State Department of Transport services. This is seen by Government agencies (Centrelink and CES) as a special problem for the unemployed in Devonport, particularly as the Housing Commission areas where young populations are concentrated are on the fringes of the city. This makes it harder for them to seek jobs, to attend the Job Centre, or to take up opportunities for further training. The same problem makes it harder for the people from the outlying areas, Latrobe, Kentish and Ulverstone to seek work in Devonport or to attend these agencies.

A similar lack of public transport along the coast inhibits full use of university extension facilities in Burnie. This is all the more serious since the University study centre has been closed.

## **The electronic future**

Part of the problems experienced by the Mersey Lyell region is seen as the slower adaptation to electronic infrastructure and marketing. The Tasmanian State Library has led the way in providing electronic access to reference sources and the Devonport Library will be providing a Tasmania-on-Line centre to provide training and extend access to the Internet. While these improvements increase the general level of computer awareness of the citizens there is a need for intensive training of managers and small business proprietors in all aspects of electronic commerce. The city can no longer afford to trail in this field which offers a chance to overcome some of the difficulties inherent in Tasmania's geographic isolation. Equally we cannot afford to let competitors use more modern methods to pull further ahead of this region.

## **Development and support groups**

### ***Devcorp, REDO etc***

The communities of Devonport, together with Latrobe and Kentish, have supported a number of employment initiatives and training/mentoring programs including the Business Enterprise Centre and Skillshare. The Devonport Development Corporation has facilitated business start-ups in the City and has taken part in regional programs. Committee members and other volunteers have spent countless hours attempting to relieve the levels of unemployment in the city but without adequate support at a federal level. The time that these people have given and the knowledge of the industrial environment which they have gained should not be disregarded, and any federal support which can be gained should be with the advice of such community groups.

### ***Council support***

Council has been a constant supporter, both in personnel and finance, of local community groups, despite the cut backs in its own federal funding. The Council will continue to be active in support for local industry and business in the future, but it does not have the power or capacity to act alone. It believes that the depth and intractability over some 15 years of Devonport's unemployment demand that the Federal Government must recognise the disparities between regions, and must prioritise its support programs. It supports the regional submission in its assertion that regional development is a casualty of the breakdown in the federal system.

### **Tourism**

Much has been made in the past of the tourist potential of Tasmania, but despite the natural attractions of the region and its access to World Heritage reserves, the levels of tourist occupancy in the North West including Devonport are about 20% below the national average. We believe that some

improvements could be made in relatively simple ways; one is for all federal government departments to be reminded, or even told for the first time, that there is an airport at Devonport; that their employees can fly there direct if they so need, and not to believe airline staff who tell them otherwise. (The same message could be sent to travel agents all over the country.)

The second improvement would be for Tasmania to be featured more prominently in the activities of the federal Department of Tourism, whose activities do not seem to feature Tasmania at all.

### **Devonport's needs for the future.**

We have mentioned some specific difficulties which Devonport faces and some remedies. There is much more that we could suggest in more detail but that depends on the establishment of joint Federal-State-Local Government and Community linkages and mechanisms to approach the problem. We believe that the following steps are necessary as a priority:

#### ***Integration into regional focus***

The regional submission talks of the lack of definition of "Regional Australia" or of what a region is. We believe that Local Government units are too small to function effectively in the task of reconstruction and that the state is too large a unit, diluting the focus too much and losing contact with community groups. We believe that the government should recognise that there are natural regions, which have disparate and distinct problems, and which need special organisations. These are not intended as a 4<sup>th</sup> tier of government but as task forces, with a limited application only to certain regions based on need, and that they should be temporary.

#### ***Research into regional policy***

We believe that Regional Development needs much more research and that its seeming relegation to Human Geography departments of universities, and the lack of interest taken by Federal Governments in the issue has contributed to regional problems.

