Public Sector Accountability

John Hyde

The following story is doing the rounds of Perth: So-and-so (the name depends on who's telling it) had a race-horse that the government wanted to buy, but they could not agree on the price.

One day, the trainer rang the owner to say the horse was sick. So-and-so reacted quickly: he rang the government, accepted the offer, and said the horse was on its way.

Quick as he was, before he could get the horse onto a float, it died. Nevertheless, he loaded the dead horse and banked the cheque.

Perth is a small city, so it was not long before the entrepreneur met a representative of the government. He felt compelled to ask, `I know my horse was a bit off colour; what did you do with it?'

`We raffled it.'

`For Pete's sake! What did the winner say?'

`Oh, we gave him his money back.'

And that, dearly beloved, is the Parable of the Horse. It reminds us of the Argyle Diamond Trust, the Rothwells bail-out, the Teachers Credit Society bail-out, the petrochemical plant and many other WA Inc. episodes. It reminds us of our share of the cost and the risk of the Government's commercial activities.

More fundamentally, it reminds us of the consequences of relaxing the accountability requirements which should always attend government.

Sir William Cole, recently-retired Secretary of the Department of Defence, was this year's Giblin Lecturer. His theme was that the requirements of public sector accountability make economic efficiency impossible.

People who ask politicians to run the government more like a business are wrong. When buying and selling in competitive markets, businesses are accountable to both their customers and their shareholders. This form of accountability makes them efficient in the economic sense which was central to Sir William's paper. However, the market, which depends on voluntary transactions within stable rules, cannot discipline politicians, who habitually enforce involuntary transactions and who sometimes change the rules.

The politician's lust for power, money and votes must be disciplined in other ways. Sir William's point was that `efficiency, important though it is, cannot be an overriding objective in a public sector operating within our system of government'. He assumed a public sector which is operating within our system of government. But what happens when it is not?

The problem is not new. In the first chapter of `Australian Financiers', T.G. Parsons examines the record of Colonial Commissaries----the men who ran the public sector's commercial activities from 1788 until the 1830s. The Commissariat purchased cargoes and retailed them to emancipated convicts and free settlers, purchased grain, issued credit and helped themselves and their mates. Parsons writes, `There was the lure of the public treasure. Corruption was endemic'. He describes honest men and corrupt, but mostly he describes `hard men who valued money above honour'.

These Commissaries were not constrained by the mechanisms which Sir William Cole assumed----parliamentary questions and committees, rules which keep private and public interests apart and, above all, openness to public scrutiny. Parsons makes the point that the Commissaries were moderately efficient. They were, however, often corrupt. Some made fortunes and some were convicted of offences. They brought the Governors into disrepute with the colony's citizens. This led, among other things, to the rebellion that deposed Bligh.

To come to a modern example: In October 1983 the joint venturers in the Argyle Diamond Project made a $50 million compensation payment to the WA Government in return for release from an obligation to build a townsite. This $50 million was used to launch WA Inc. At a time when 5 per cent of the Argyle Diamond project could have been purchased for $23 million invested in Ashton Diamonds, the government purchased a 5 per cent stake from Bond Corporation for $42 million. It then formed the WA Diamond Trust which purchased the 5 per cent stake for $45 million. Next, the Trust issued 65 million one dollar units. 60 million of these were sold to public subscribers and 5 million to the WA Development Corporation.

How was $23 million worth of assets turned into $65 million? By taxpayer subsidy. The trust escaped Federal tax and, on top of that, the State Government guaranteed an 8 per cent return for 7 years, thus turning a speculative venture into a gilt----or guilt. In spite of the subsequent success of Argyle Diamonds, the Diamond Trust units are now worth only 82 cents.

Who benefited? Bond Corp obviously, and also, indirectly, the State Government through Bond's support for the Curtin Foundation and Bond's assistance with later `commercial' deals-----the Rothwells bale out, the petrochemical plant and so on.

Who lost? Investors, who would have been better advised to have purchased Ashton Diamond stock, Commonwealth taxpayers who lost because of use of the tax loophole, and State taxpayers who carried the risk of guaranteeing the 8 per cent return.

Their loss was not, however, the most serious loss. The WA Government was, at best, foolish, or, at worst, extremely naughty, to initiate public sector activity which avoided the, admittedly inefficient, discipline normally imposed by `our system of government'.

WA businessmen are now complaining that the reputation the state has acquired is making it more difficult for them to raise funds in Melbourne and Sydney. But even this is not the most serious consequence of WA Inc. As Jean-Francois Revel put it in Encounter: `being "corrupt" means somehow misapplying political or administrative power, whether directly or indirectly, outside its proper sphere, for one's own financial or material advantage or in order to distribute the gains among one's friends, colleagues or supporters'.

And therein lies the real problem. WA politicians have not personally been on the take, but when ministers introduce government into commerce they inevitably abuse their trust and do serious damage to a system of government that depends on trust.

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