

Speech to Perth Rotary

Time: 12.30

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Venue: Parmelia Hilton

After WA Inc

Introduction

Businessmen in Melbourne are even more gloomy than Perth businessmen---but without good reason (~~unless it be the Melbourne weather~~). Their economy is depressed and they are losing money, it is true. But we are losing as much money as they are, and we have lost even more our commercial virtue than they. Our loss of virtue, unless we regain it, and make plain to the world we have regained it, will cost us dearly.

A society---any society---and its attendant economy depends for success on attracting and retaining good people and capital. Neither people nor cash will choose WA unless they can expect to enjoy rewards commensurate with those that can be had elsewhere. Worse, those people and that capital that are here now, to the extent that they can move, won't stay here. Many of you will have heard Harold Clough explain to the Rotary Conference how his company's best young engineers were working in Papua New Guinea and Indonesia.

While commerce is much aided by the enforcable laws that maintain property rights, enforce contracts, protect public goods and generally set the rules, in day-to-day affairs commerce relies more on an expectation of probity---i.e. integrity or honesty widely viewed. Parties to commercial transactions do not expect the other party to seek every

advantage he might gain by pushing the law to its limits. They expect people to also be bound by probity. They trust other people to be truthful and fair to all concerned---the first two legs of the Rotary 4-Way test---and are surprised and hurt when they are not. (In my opinion legs 3 and 4 of the test only confuse a nice clear matter.)

Western Australia has been a haven for internationally mobile capital. This is in part because rich mineral deposits and arable land have provided opportunities for profitable investment. These opportunities are, however, no better than many in Latin America and not as good as some in Africa. Yet Western Australians have raised capital more easily and more cheaply than the citizens of those countries because people investing in Australian projects or Australian companies felt that they could trust us.

People will not invest money or effort with those whom they do not trust, particularly if taking yourself or your capital off to another Country or another State is easy. Without the input of good people and good cash, our economy must run down. When an economy starts to run down it can offer investors of time or capital even less opportunity, and so it loses more people and more capital. The situation can snowball---ask an Argentinian or asked the remaining management of some our corporate high fliers who would now desperately like to be able to raise more equity.

This is the sort of situation I believed Rotary and its 4-Way Test was supposed to avoid. Yet, I suspect this chapter may have done little at the time that all was going wrong both on the Terrace and on the Hill to ask, even some its own members, whether some matters were the truth and fair to all.

WA Inc.

Although the rise and fall of WA Inc. hardly ranks with Federation or with the declaration of war, in my opinion, it

was one of the more important episodes in Australian politics to date. It is obviously important for the damage it has done, but it is potentially very much more important for the instruction it might give. WA Inc type behaviour, if made more general and perpetuated indefinitely, would eventually destroy our society.

It is not that I think that WA Inc. was qualitatively different from several more isolated events, under governments of both persuasions in several States and the Commonwealth. WA Inc. was exceptional among these events only because it was a conscious stratagem of the Burke administration rather than an *ad hoc* response to the blandishments of vested interests, and because of the scale on which it was conducted. For the health of our little democracy, its lessons must be learned so well that we can with honesty say: "Never again".

My topic, is thus necessarily a political one. It was suggested by your conveners. I congratulate them because it seems to me that too often businessmen (and you are mostly businessmen), who claim to believe in democracy, fail to understand democracy, because they are too bloody precious to enter the political process. You treat politics as though politics were beneath your dignity. And, of course, you get the governments you deserve.

One irony, among many, is that businessmen, who never cease to complain about politicians, never cease to demand laws to control things that ought to be left to markets and to families---that is, they, as much as anybody, are responsible for our badly over-politicised society. St George's Terrace could have nipped WA Inc. in the bud but through ignorance or the hope of personal advantage it chose not to. Another irony is that businessmen almost never try to improve the quality of politics by seeking office themselves. Frankly, gentlemen, if you want the benefits of democracy, you ought to contribute to it.

I gather that your conveners were hoping for an upwards and onwards sort of address---the sort of thing Harry Lauder did well to music. I don't, however, believe that states recover from minor disasters like WA Inc, or indeed from major disasters like the Second World War, by being Harry Lauderish or by chasing the Olympic Games or by conducting expensive swimming meets or boat races. Those are the circuses of the 'bread and circuses' of which Gibbon wrote. Circuses provide an opportunity for not facing up to real problems. Gibbon argued, I think persuasively, that they contributed significantly to the decline of Rome.

What Western Australians can do now is limited by very many problems. Most of which have nothing to do with WA Inc. I will, however, concentrate, only upon some that have.

WA Inc is a pretty vague term but I think we can say without misrepresentation that it was quintessentially a political style. I will, therefore, start by making four points about the style:

1. More than any other governmental style since that of the Rum Corps, WA Inc. exemplifies government that has forgotten the rules that ensure that all governments take the interests of the governed into account. It, therefore, is bad government.
2. WA Inc. has some obvious parallels with the corporatist governments of Mussolini's Italy, and more recent Austria, Sweden and perhaps Singapore---a four-way marriage of organised business, organised labour and both political and administrative government. It would by now have had a lot more in common with these regimes, if it had not fallen in a hole and, except for current attempts to avoid disclosure, ground almost to a halt.
3. I think another feature of the Burke and Dowding Governments was even more important than their corporatism. Because there are parallels here with the

Bourbons and the Stuarts, and for want of a better name, I will call this attitude the doctrine of "The divine right of governments". Our Western Australian Ministers seemed to have convinced themselves that their democratic election gave them *carte blanche*. They did not seem to accept that the monies they controlled and the powers they exercised were held only in trust for the people of WA, and only to be employed in the terms of that trust. If they had understood as much, (a principle that, say, a company director needs to understand rather well these days) they could not, for instance, have used \$400 million to buy a petro-chemical plant that existed only on paper. More recently the Lawrence Government could not have prorogued parliament to silence politically-inconvenient committees---that act was equivalent to closing a general meeting to avoid shareholders' questions.

4. Although the term "WA Inc." is associated with the Bourke and Dowding Governments and by modern Australian standards is undoubtedly particularly ugly, it is not unique. Most of the sorts of things the Burke, Dowding and Lawrence Governments have done have been done by other Australian governments, of both colours. Deals with people who are too close, use of doubtful valuations, bad investments, favouritism, contempt for parliament and the covering up of things the public is entitled to know have all happened before, if not on quite such an inglorious scale.

The most frightening feature of what went wrong in WA is, without any doubt on my part, the want of an understanding of what, in fact, did go wrong.

Although at any point in time there is a better and a worse political party, and I, not unnaturally, have a preference, I am not particularly interested in partisan politics. I am well aware that all virtue does not sit on one

side of the parliament. That brings me to the first post WA Inc. point.

Although it is important that the perpetrators of WA Inc be punished, so that no one of either political colour is tempted to do likewise, the Labor Party should not be done long-term injury. Western Australia needs two approximately balanced political forces---each to keep the other honest and on its toes.

Affected WA in four ways

1. It cost a lot of money
2. It set in place a lot of structures and practices
3. It seriously injured the public service.
4. It cost our good reputation in such important places as London Tokyo and New York.

Let us see what can be done about each and then resolve to do it.

Money

Most of the \$1000 million or so is gone for good---it was blown on high living, horses, steel that will never make a petro-chemical plant etc. Some of it was transferred from taxpayers to favoured people. That latter was unjust but it was not an economic cost in that some lifestyles were enhanced at the expense of others. Although it might in theory be possible to recover some of the latter from ex depositors with the Rothwells, the Teachers Credit etc that is pure theory---the thought leads on to no practical action. For all practical purposes your money is gone. Forget it.

Since the losses were mostly made by us through the government, the question arises as to whether the government ought to make good the loss by raising taxes to a higher level than would otherwise have been necessary, or by reducing services to a lower level. Either course will cost the state people and capital but I think that on balance the latter will do less to drive people and capital away than will high taxes.

The Structures

Some of the malign structures have already gone---Exim for instance. Others such as the SGIC and R & I Bank can be privatised easily and should be. Ministers who do not control commercial organisations cannot be tempted to lean on managements to achieve political or venal ends. Nor can they be accused of leaning on management when they have not.

In passing let me say something about a rather silly view (at least I think it is rather silly) that has wide currency in the Liberal Party. It is that the R & I Bank is needed in public hands to provide the money for big Western Australian projects that the dreadful Eastern States banks would discriminate against. In the first place, even if it were true that the Big Four had an Eastern State bias, there are international Banks anxious to lend to good Western Australian projects, if not quite as anxious as they were before they heard of WA Inc. With the possible exception of the State Bank of NSW, and conceding that the R & I appears well on the way to recovery, the recent record of State Banks has been dreadful. It has been dreadful because the State Banks have backed semi-politicised local pipe dreams. The R & I should be placed out of the way of temptation.

Perhaps the most important post-WA-Inc repairs have to be done to the WA civil service. The inappropriate political appointments---and there were many---must go. But not all were inappropriate. If this Government or the next is serious about cleaning up the WA Inc. mess it will have no option but to

take the advice of someone or some people, although the list is not long, who thoroughly understand the WA Civil Service and have an unassailable record of professionalism. I am assured, I believe reliably, that there is no shortage of upper-middle level talent in the WA bureaucracy.

The problem is not just that of political appointments. When professionalism no longer led to promotion and when sucking up to ministers and ministerial appointees did, WA Inc seriously distorted the civil service proper.

If the Civil Service is the most important reform, Parliament is not far behind. If there is a change of Government, which seems not unlikely, the Coalition must resist the temptation to treat Parliament with the contempt the present Government has treated it. I fear that they will not resist the temptation.

Parliament must sit much more than it does, indeed, I believe it should sit for most of the year. Its committees should be made effective by providing them with funds to employ experts, by appointing people to them who respect parliament to the point where they are not slaves of the Cabinet and Party Room or Caucus, and by co-operating with information on request. The Speakership and Question time should be reformed to allow the Opposition to use the forms of the Assembly to probe the Government.¹

Commercial confidentiality is not a reasonable plea when made by a Minister of the Crown. Those who do business with the Crown must, therefore, expect the transaction to be revealed to all. The reason is simple. The Crown has a monopoly of the legal use of force. It can cover its mistakes by regulating competition out of the market and by taxing, and the citizen cannot decline to deal with the Government as he can decline to deal with, say, a badly run supermarket. The only imposed discipline the government faces, namely that of

¹ C Ulyatt, *Shifting the Balance*, AIPP, 1990.

the ballot box, requires widespread and perhaps detailed knowledge of what the Government has been up to. There is no democratic alternative. This is another reason, perhaps the prime reason, why Governments should get to Hell out of commerce where confidentiality does have a place---indeed where information is property.

A Labor Opposition must be able to uncover and publicise a Coalition Government's mistakes and chicanery. Democracy will not work unless error is publicised. Opposition MPs have a unique interest in doing this task well and they should be given every opportunity.

The Government media propoganda machine should be disbanded.

The private sector also has some structures in need of reform. With hindsight, I believe we can say that the Stock Exchange's supervision of some of our corporate cowboys was less than ideal. But I do not believe that any particular structure in the private sector is likely to be so much better than another. For example, so long as the legal position is clear and well known, it does not matter much whether insider trading is legal or illegal---if the former, the market will punish employees and directors who place their own interest ahead of shareholders; if the latter, the judges will punish them. Either way, the system will be imperfect. The most important thing not to do is to pretend that supervision is more perfect than it is, as happened with Rothwells, Teacher's Credit and in many other cases.

In particular we should not assume that regulation reduces skulduggery. Legal complexity often (I think most often) enhances the opportunities available to people with flexible ethics to fleece those who have a more strict view of what is proper.

That brings me to the last and most important of the four consequences of WA Inc. .

The cost to our reputation

I ask you to try to take your memories back to near the beginning of WA Inc scandal, before the term first appeared. Events then set bad ethical precedents and damaged our international standing. When the State Government purchased Northern Mining for an exorbitant price from a local entrepreneur and floated a diamond trust supported by taxpayer guarantees, did not the Ministers show a cavalier disregard for the trust they owed to local taxpayers? Did they not set a bad example to people who were in a similar position of trust vis-a-vis minority shareholders? Did not the questionable valuations and misleading presentation of the facts also set bad precedents for later, better known events?

At around the same time, by a process that was at the time referred to as extortion and blackmail, the Government forced the Ashton diamond venturers to make a huge unscheduled contribution to state coffers. This unreasonable action infuriated foreign investors.

I have started at the beginning but I won't go on. We have a royal commission to do that. I merely make the point that the most fundamental shortcomings of the time were ethical---our political and business leaders apparently had a problem recognising some circumstances that were not truthful and fair.

Until we mend our moral ways our problems will continue. This is because, at bottom, both economics and politics are founded in ethics. I know that that simple statement sounds pretentious. The fact that does is part of WA's problem.

What is or was wrong with asking Rotary's questions:

Is it the truth?

Is it fair to all concerned?