SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO NATIONAL COMPETITION POLICY ARRANGEMENTS

ST VINCENT DE PAUL SOCIETY
NATIONAL COUNCIL

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1 INTRODUCTION

The St Vincent de Paul Society has been assisting people in need and in difficulty in Australia for 150 years. It is now one of the largest and most cost-effective welfare organisations in Australia. While it has a huge turnover of funds, of which nearly $200 million in goods and services are distributed to low income and disadvantaged people, administrative costs stand at less than seven (7) percent.

Christian principles and the teachings of our founder Frederic Ozanam form the basis on which the St Vincent de Paul Society concerns itself with both the causes and consequences poverty and deprivation.

We are always concerned about growing inequality, not only with regard to income but, even more importantly, access to essential services. It is the latter which drives people into poverty and keeps them there.

We welcome this Inquiry into National Competition Policy. One hundred and fifty years of helping the poor and disadvantaged has taught us that the maintenance of their income security, whether through paid work or income support, has little meaning if their access to essential goods and services is threatened with the insecurity of cost increases and re-structuring in the interests of profit maximisation rather than human need.

The role of business enterprise has never been to secure just and equitable opportunities or outcomes for all sections of society. It is up to governments to decide on the level of their commitment to social fairness and inclusion.

Competition, by its very nature, creates winners and losers. As a democracy committed to fairness and inclusion it is unsustainable to embrace a socio-economic framework that deliberately creates losers.

It is also unsustainable, in the long term, for governments to withdraw from the responsibility of investing in the capital infrastructure that provides the ground for social inclusion. The short-term benefits of privatisation to budget bottom-lines (in the context of the electoral cycle) are potentially far out-weighed by the risk that the public, especially those who are most vulnerable, will be left to pay for the chronic lack of essential infrastructure. These burdens may be felt through cost-shifting, job losses, and cuts to essential services and income security provisions.

2. DEREGULATION

The free market is a major instrument of wealth creation, but does not concern itself with either rational or fair distribution. Profit is the ultimate justification for any business. It is of concern that, from the early 1990s deregulation has been embraced as a good in itself in Australia, with the result that a number of key areas of human need have been left to the power of market forces without the buffers that government has the ability to put into place, especially for the benefit of those who are most vulnerable. Catholic Social Teaching is unequivocal on this matter:

"There are needs and common goods that cannot be satisfied by the market system. It is the task of the state and of all society to defend them." (*Centesimus Annus,* 1991)

The market does not distinguish between a bag of cement and a human being – they all fall within the category of factors of production.

While excessive regulation loses sight of the aims of the production process, unbridled market forces give rise to a status quo in which significant and growing sections of society are denied access to basic needs and common goods.

What has happened with the acceleration of deregulation in Australia in recent years?

– **Corporate Fraud & Collapse**
- Ansett, OneTel, Pasminco, NAB, et al

– **Failure of Self Regulation**
- Food standards
- Live sheep exports
- Aircraft Maintenance
- Shonky buildings

– **Disastrous Developments in Labour Market**
- Casualization of labour market, about 30% now casual (with no sick leave, recreation leave, or superannuation)
    - 1.2 million who want more work and cannot get it.
    - The storing up of problems for the future.
    - The outcome of massive income inequality and inequality of opportunity.

3. PRIVATISATION & OUTSOURCING

Between 1990 and 2000 Australia produced the highest per capita ratio of proceeds from privatisation out of the 18 industrialised OECD countries. This amounted to a total of $US69,628 million (Tiffen and Gittens, 2004 *How Australia Compares*).

– An ideological commitment to privatisation has been supported in the interests of assumed:
  - Greater efficiency
  - Lower prices

– In few, if any, cases has this occurred. The simple fact is that turning public services over to private ownership, subjecting them to the logic of the profit motive leads to a situation where those who have the money can buy, while those with no money must go without or must be subsidised.

It is specifically the case that low-income households experience a disproportionate degree of cost shifting as well as job losses associated with the privatisation process.

Australian research findings on the impact of privatisation of public enterprises conclude that:

"…privatisation maintains and exacerbates existing inequalities. On one side is a sobering picture: lost jobs and casualisation; the loss of access to public resources; the loss of valuable public assets to current and future generations; the end of significant dividend streams to support existing public sector services and develop new ones; and higher costs to the public sector. On the other side is a brighter picture for the many winners: large shareholders whose share values have reached exciting heights; financial institutions that have grown and extended their market share; executives whose salaries have risen dramatically; private consultants and advisers who have expanded their businesses and received large fees; and politicians who have brought themselves popularity with their claims to pay off debt and better manage public sector finances." (Collyer, Wettenhall and McMaster 2003)

Banking is now characterised by extortionate charges (there being no public bank to compete).

Water, electricity, and gas production and distribution are fraught with inequalities in cost burdens and in levels of service delivery. As Figure 1 shows, the various cost of living trends have seen serious increases above the average increases in the cost of living between 1990 and 2004, the period that has witnessed the greatest degree of de-regulation and privatisation. Education expenses and urban transport fares, both of which are central to the struggle of young people from low-income households to gain access to economic and social opportunity, have increased dramatically.

FIGURE 1

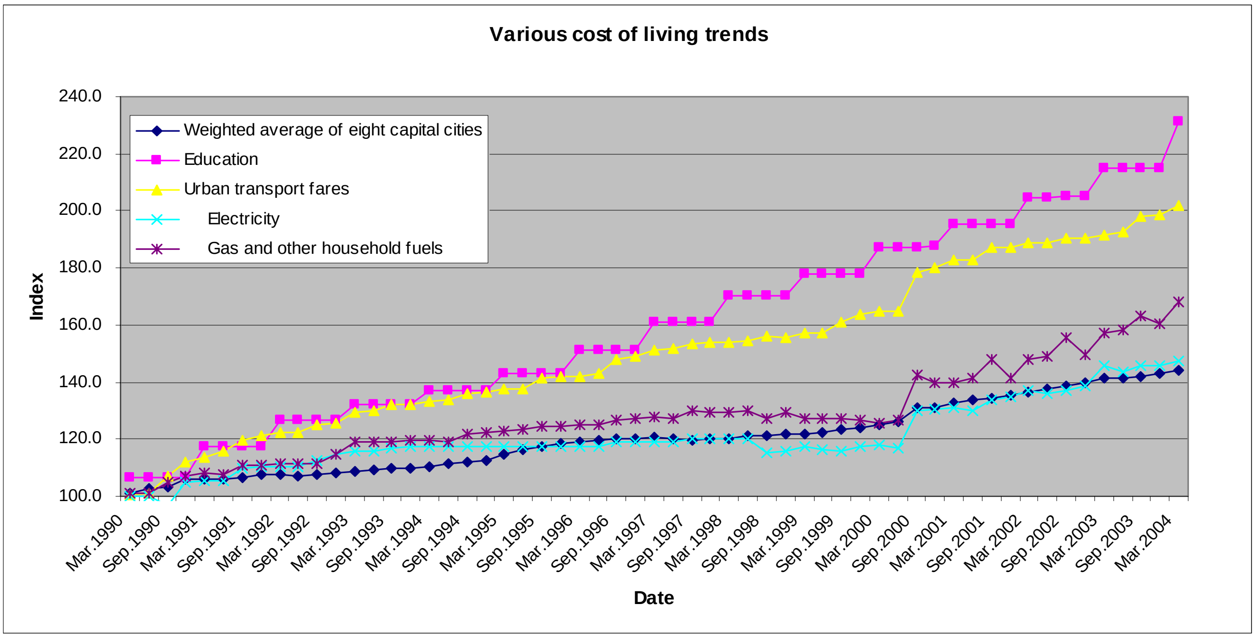


Figure 2 below highlights the massive rise in the cost of dental services and childcare services, both of which have outcomes that are closely related to the degree of government intervention and subsidization.

FIGURE 2

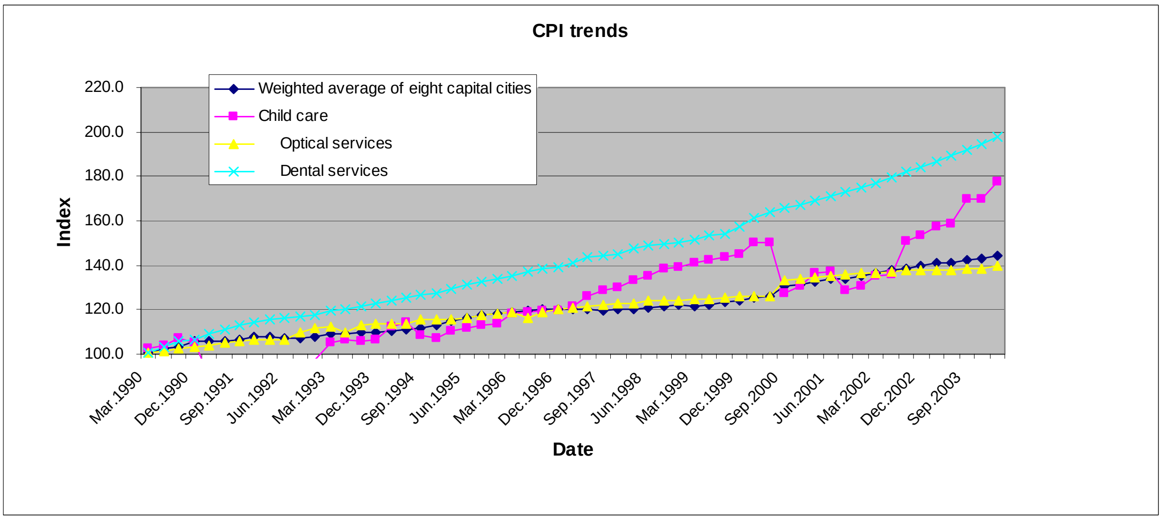
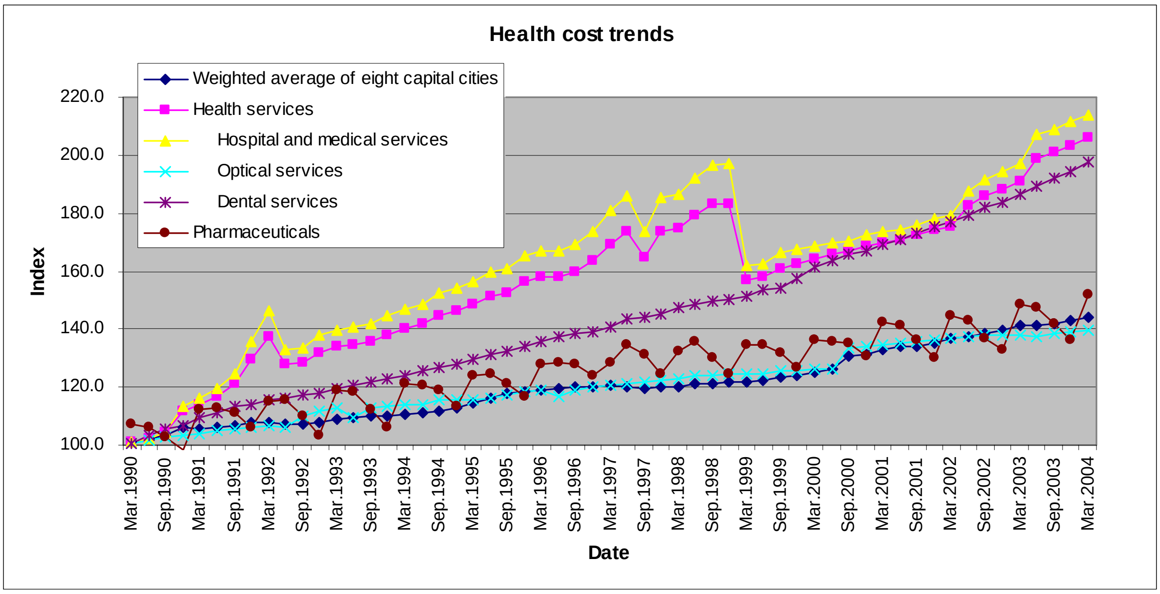


Figure 3 below charts the trends in health costs. The move towards greater subsidization of private health insurance has clearly not reduced the cost pressures for those who are unable to afford to "opt in" to private cover. One can only assume, on the basis of this data set, that, with the exceptions of optical services and pharmaceuticals (both of which have been relatively well-subsidized and price-controlled), that low-income Australians have suffered a chronic decline in access to affordable health services during the period of marketisation, deregulation and privatisation.

FIGURE 3



Where there has been a rise in prices it is the result of a withdrawal of government activity in regulating the prices and conditions of delivery.

Where competition or other reforms have been undertaken by governments they have failed to provide robust and effective regulatory frameworks in the interests of strategic social and environmental objectives. Discipline must be imposed on the markets in order to secure outcomes that tally with community standards and expectations along the lines of the European model of "universal service obligation".

The privatisation of key sectors has resulted in uneven gains for consumers, loss of services to disadvantaged sections of the community, cost-shifting to low-income households, profit-maximisation for the owners of these industries, and uneven implementation of standards.

The sale of alcohol at service stations or corner stores, for example, is a socially retrograde development, as is the highly unethical production and marketing of sweetened alcohol for an illegal teenage market.

Where decisions are made on the basis of an ideological commitment to competition, the primary commitment to a strong and cohesive society is clearly made ineffective.

4. SOCIAL RESPONSIBILITY

There is a need for a socially responsible approach to competition. The free market is not good at distributing wealth and security to all. It was never designed to do so. The trickle-down effect did not deliver at the dawn of capital accumulation in the 18th century and has not done so since.

The free market does not concern itself with the fair distribution of wealth. Hence the USA, the largest and wealthiest economy in the world, has the highest level of poverty amongst developed countries. Australia now has the fourth highest level of poverty amongst these countries (UN Human Development Report).

Where sectors have been opened up to competition it is the responsibility of government to protect those sections of society:

"Globalisation… is causing deep social pain and political costs as sensitive sectors are opened up to outside competition and go through difficult adjustments. The human costs are hurtful and governments have a responsibility to help people through the process." (PM Howard cited in Mitchell 2001: 236)

As Sharatt (2003) points out, the primary role of business is not to enable social policy but to profit maximize; businesses are not best equipped in terms of expertise or sensitivity to solve social problems. Thus, using retailers as tools of social policy may lead to funding allocations that are inefficient or even in contravention to society's interest. Some groups may be excluded from the benefits of these pricing strategies.

It is the responsibility of government to provide both safety nets for those who are vulnerable to market reforms and to ensure the strategic investment in long-term, technically advanced, infrastructure needs.

A failure on either of these counts will result in:

a) the creation of a permanent underclass, and
b) the risk that the public will be faced with massive costs of delayed investment in capital infrastructure.

The St Vincent de Paul Society is especially opposed to further incursions of market-based reform initiatives into the sphere of welfare and community services. It is our firm belief that the marketisation of many of the essential services and goods has, in effect, kept people in a position of disadvantage by closing the door of opportunity.

It is also our belief that responsible government cannot afford to focus only on the short-term political gains of cutting the costs of public expenditure and withdrawal from public ownership of key sectors of the economy. It must also have a clear vision of future economic and social needs. Without this long-term vision, those who are most vulnerable in society are bound to be pushed further onto the margins.

A framework that does not put the needs of the most marginalised first is bound to fail in its delivery of greater opportunity to the most marginalised.

Recommendation 1:

That the National Competition Policy framework not be extended further to include more areas of service-delivery that impact on low-income households.

Recommendation 2:

That the social and economic impacts of National Competition Policy on low-income households be assessed within a framework supported by a National Anti-Poverty Strategy, as per Recommendation 94 of the Senate Report on Poverty and Financial Hardship.

Recommendation 3:

That competition payments made to the States should be monitored and assessed to see if they have been used to directly ameliorate the distributional impacts of unbundling cross-subsidies.

References

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