In Australia, COVID-19 Has Exposed a Litany of Privatization Disasters

Saturday 19 September 2020, by POTTER Julian (Date first published: 23 August 2020).

The coronavirus pandemic has preyed on weaknesses created by decades of austerity, confirming what socialists have consistently argued: privatization was a disaster.

The link between privatization and the second wave of COVID-19 in Australia's southeastern state of Victoria is now indisputable. Subject to judicial inquiry, the outbreak has been traced in large part to breaches of quarantine security outsourced by the state government to private firms. Security workers were recruited through WhatsApp and employed as private contractors with minimal rights. They were neither trained properly nor supplied with adequate PPE (personal protective equipment).

After escaping quarantine, the outbreak tore through residential aged care. Already subject to a Royal Commission into endemic elder abuse, the largely privatized aged care sector has for years relied on casual workers with few rights, who are often forced to stretch themselves between multiple facilities.

As Victorian premier Daniel Andrews has acknowledged, between May and July, these conditions drove up to 80 percent of workplace transmissions of the coronavirus.

Undeterred, on July 20, for-profit aged care provider H1 Healthcare advertised "exciting" casual job vacancies on Seek.com.au — in facilities that have confirmed COVID-19 cases.

Yet these failures cannot be blamed on individual businesses or poor political choices — they are systemic consequences of neoliberalism. Although the Liberal Party was the main force pushing privatization, it's an economic agenda that has been promoted by the Labor Party since at least the 1980s, as well.

How Privatization Failed

Even before COVID-19, privatization was a disaster. Promises of public savings through increased efficiency never eventuated. The quality of publicly underwritten, for-profit services declined while regulatory frameworks governing minimum standards played a desperate game of catchup.

Aged care is a case in point. Though the primary responsibility is federal, operational costs are deliberately under-met by both state and Commonwealth governments, leaving private providers short by about a fifth of daily costs per bed. This built-in squeeze means that operators are forced to drive down job security and conditions while increasing the scale of operations and reducing amenities and maintenance to regulated minimums.

This pecuniary efficiency has driven a race to the bottom: today, Victorian regulation specifies a minimum of 3.5 square meters of aggregate habitable communal space in residential aged care homes. The CSIRO, Australia's main scientific body, stipulates almost double the space for *free-range hens*.

It's not just human services that are worse off through privatization. When basic needs and infrastructure like water, roads, and public transport are handed to private firms, services decline while prices rise and administration becomes more complex.

By enriching business, privatization creates a feedback loop: attracted by the guaranteed profit of natural monopolies, the investment and superannuation funds that own these assets are then empowered to lobby for more "investible products," in order to secure further low-risk, reliable income.

The result is extravagant waste. Take the Wonthaggi Desalination Plant. Victorian Labor's Steve Bracks (the state's premier from 1999 to 2007) outsourced construction and thirty years of operations of the 150-gigalitre-producing plant to a consortium of banks, infrastructure firms, and superannuation funds named Aquasure. By the time it was completed, the plant was not needed for half a decade. Today, it is used just to top up reservoirs.

The contract for the Wonthaggi Desalination Plant guarantees payments regardless of whether any water is delivered. Water or not, the state of Victoria pays Aquasure around $650 million per year — or $1.8 million *per day*. This figure was calculated by applying a favorable inflation rate of 4.9 percent, extended until 2039, to the consortium's total capital expenditure of $4.5 billion and then dividing the total by the period of the contract (thirty years). The result was that Victoria owed around $19 billion in "2039 dollars," paid with today's currency, starting immediately after construction. This allowed Aquasure to repay its own debt of $3.7 billion.

In outsourcing the plant, Victoria nationalized Aquasure's debt, paying over 14 percent interest on their total capital expenditure, to their commercial lenders. This is vastly more expensive than funding the plant publicly — today, the state's own Treasury Corporation offers an interest rate of less than 1.5 percent (it was around 6 percent at the time of the plant's construction). Aquasure has nothing to do but maintenance and has nearly two-thirds of a $1 billion in assured income. Despite receiving a further tax refund of $169 million, the company posted massive losses in 2014.

More Expensive, Less Efficient, Lower Quality

Other examples confirm that privatization often neither saves public funds nor guarantees efficiency. The East West Link tunnel and road project was contracted by Denis Napthine's Liberal government. In view of its environmental impact and unpopularity with residents, Napthine booby-trapped the construction contract with a $1 billion cancellation fee. The Daniel Andrews Labor government, despite scrapping the East West Link, inherited this fee — and honored it.

It would be a mistake, however, to suppose Andrews only pays out under duress. He also extended the concession to operate the existing CityLink toll road until 2045 (it was due to expire in 2034). The lucrative terms allow Transurban to raise tolls by 4.25 percent per annum until 2029. In return for partly funding other state infrastructure projects, Transurban will receive an estimated $37.3 billion in *additional* revenue by 2045.

Public transport fares no better. Melbourne's trams and trains were initially privatized in 1999 by the Liberal Jeff Kennett government, with the promise that state subsidies would decline over time to zero. By February 2004 the Bracks Labor government admitted in budget papers that *additional* subsidies to the base rate would amount to $2.3 billion over five years. Urban planning academic Paul Mees suggests that the incoming 1999 Labor government may have been particularly open to privatization, given it was advised by David White, a former Labor cabinet minister who had recently been appointed chairman of privately owned Yarra Trams.

Figures on the total subsidies awarded to the private public transport operators today are not readily available. However, in 2014 Connex and Metro received over $1 billion apiece. Subsequently, service quality fell, with trains regularly bypassing stations in order to meet efficiency targets. Although this led to widespread calls for the Andrews government to reverse privatization in 2017, at the conclusion of the operator's contracts, he renewed their contracts until "at least 2024" for $7 billion each. To address declining service quality, the state government simply updated the penalties and targets governing the lease.

Using Public Money to Privatize Public Goods

The logic of privatization has fed back into the government itself. In some cases, government entities disguised as profit-seeking firms have purchased public assets.

This is how Daniel Andrews' fifty-year lease of the Port of Melbourne was bankrolled. Sold in order to "recycle" assets, pay down state debt, and fund new spending, the Port of Melbourne was purchased by the Lonsdale Consortium, a group of sovereign wealth funds including the Commonwealth government's Future Fund, the Queensland Investment Corporation, and a few international funds. The Future Fund was originally founded by Peter Costello in his final years as treasurer of the conservative John Howard government. Costello still chairs the consortium.

To raise funds needed to buy the Port, Lonsdale sold bonds supplied by its sovereign backers to the private sector. The value of the Port was artificially increased by guaranteeing its monopoly status. Although some predict additional port capacity could be needed by 2025, if Victoria builds another port during a fifteen-year period, it may be liable to compensate Lonsdale. Using the proceeds of the sale, the state of Victoria purchased its own bonds back from the private sector, paying around $4–5 billion to lower its own debt.

It wasn't so much handing public property to the market. Rather, a number of states created sovereign debt so that Victoria could sell them the Port and pay down its own debt. As a side effect, the Port of Melbourne is now owned by the for-profit Lonsdale Consortium; in place of public control, a board of blue-suited elders mind and distribute guaranteed monopoly profits.

But the point was never the general good. Privatization only manufactured a reliable income for investors by making the rest of us poorer and more vulnerable.

Privatization Fails, Even in Its Own Terms

It is true that successive Liberal governments have promoted marketization with mechanisms like former Liberal PM Tony Abbott's "privatization bonus," which rewarded state governments' sale of private assets with federal funds.

However, since spearheading the introduction of neoliberalism in the 1980s, the ALP has not needed incentives — although it does prefer the more discreet nomenclature of "Public Private Partnerships." In addition to selling the docks, Daniel Andrews — from Labor's left faction — has outsourced the running of prisons, several hospitals, school projects, tunnels, and more.

Today, it is beyond dispute that privatization has failed, even in its own terms. Declining services force governments to set up Key Performance Indicators (KPIs), benchmarking standards, and regulations. This, however, gives private providers an incentive to game the rules and secure public income with minimal effort. An economic agenda that was supposed to cut red tape and reduce expenditure has resulted in bureaucracy and wasteful spending. Job Services providers, who are paid to coerce the unemployed into punitive make-work, are a good example.

Most disastrously, as economist Steve Keen has shown, the cost-cutting logic of privatization privileges short-term profit over long-term planning, draining society's ability to respond to crises. Victoria used to have a hospital designed to treat infectious diseases, but it was closed in 1996. Its containment function was amalgamated into the Royal Melbourne general hospital, which has recently closed wards in the face of the pandemic because its infrastructure was "never set up to care for COVID-19 positive patients." Instead of stockpiling useful things and skills, neoliberalism stockpiled wealth in private hands.

Privatization and austerity are "zombie economics" — dead ideas that still walk among us. Far from being disruptive, innovative, and efficient, neoliberalism handed commonly owned social services over to a private bureaucracy of managers, duly protected by commercial-in-confidence laws, national security laws, and intellectual property.

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P.S.

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