Power Crisis
The self-destruction of a state Labor Party

Written by former minister and Labor historian Rodney Cavalier, *Power Crisis* is an explosive account of the self-destruction of the New South Wales Labor government, which has seen a turnover of four premiers in five years, and is heading for rejection and even humiliation by voters at the next state election.

While the catalyst was the thwarted attempt to privatise electricity, Cavalier reveals that the real issue is the takeover of Labor by a professional political class without connection to the broader community or the party's traditions. Drawing on history to illuminate the crisis, this book spans the ALP's history from its origins as a party for the workers, the bitter split over conscription in 1916, the triumph of 24 years of unbroken rule and the policy innovation of the Wran era, to the rise of values-free careerism.

Featuring interviews with ex-premiers Iemma and Rees, *Power Crisis* contrasts the current turmoil and self-indulgence with the stability within New South Wales Labor over generations before, and asks, 'What went wrong?'

Rodney Cavalier is a political historian. He was Minister for Education in the Wran and Unsworth governments and writes frequently for the press and in academic publications on politics, the ALP and sport. He remains an active and despairing member of the Labor Party.

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You may well ask why I write. And yet my reasons are quite many. For it is not unusual in human beings who have witnessed the sack of a city or the falling to pieces of a people to set down what they have witnessed for the benefit of unknown heirs or of generations infinitely remote; or, if you please, just to get the sight out of their heads.

Ford Maddox Ford, *The Good Soldier* (1915)

To sum up, then, we may say that that system of control from below adopted by the Labour Party from its inception has been proved necessary by the selfish and cowardly opportunism which has distinguished the workers' parliamentary representatives. As against that disruptive force the machinery of checks and controls has succeeded in maintaining the solidarity and identity of the Party through many crises. But when it comes to a question of forcing a Labour Government to give effect to their platform or realise the ideals they have been sent into Parliament to accomplish, the organisation has broken down. Instead of directing and controlling the activities of the parliamentarians once they have got command of the Treasury Benches, Conferences and Executives and Caucus have only been able to produce revolts and splits which have exposed the workers enervated by spoon-feeding from Labour Ministries, to the tender mercies of bitterly capitalistic Governments.

VG Childe, *How Labour Governs* (1923)

I had been wrestling with smoke.

Morris Iemma

To Sally, Millie and Nicholas

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Australian Encounters with the ALP

Series Editor, Tony Moore

This book is not about the pros and cons of electricity privatisation. Its focus is the power crisis within New South Wales Labor politics, manifest in the political demise of Premiers Morris Iemma and Nathan Rees. This story ends as farce with a succession of self-destructing ministers setting the scene for a terrible day of reckoning when the people of New South Wales come to cast their votes. The malaise threatens to undermine good government not just in New South Wales, but in other states and territories, and increasingly the Commonwealth. While journalists have viewed the fall of Iemma through the prism of an old fashioned ideological war between statists and neo-liberals, between unions and government, Rodney Cavalier analyses the root causes of the crisis to explain why government in New South Wales has become a grim game of musical chairs. He reveals a bitter conflict between an elected Labor government and the party that created it.

The failure of Morris Iemma's bid to sell electricity generation is a symptom of the disease. The problem for modern Labor is the hijacking of party and government by a professional political class – operatives on big salaries with minimal life experience or connection to the broader community. Many of the new generation of Labor leaders, who rose from the ranks of numbers men, spin doctors and the campus ganglands of Young Labor, lack the people and communications skills traditionally associated with the noble craft of politics. Instead, those of the new political class are bureaucrats focussed on factional – and increasingly subfactional – loyalty, dispensing and receiving patronage ahead of a lucrative post-political career as private sector lobbyists. For Cavalier it is rich hypocrisy that the ministers who supported electricity privatisation derided the union-dominated party and Annual Conference – the

same power bloc to which they owed their careers. Until the fight over privatisation, they had used this union domination to impose government policy on dissenters within the ALP.

For most of the players, the issues are not ideological. These have been power plays of ambition let loose by the absence of belief. Cavalier's thesis is that the new generation of operatives lacked both the skill and the will to persuade the party and unions of the wisdom of privatisation. Hawke and Keating won party support for a suite of reforms, including privatisation of Qantas and the Commonwealth Bank, by consulting, negotiating with and gradually persuading key constituencies, unionists and branch members, and ultimately prevailed. Pragmatic management of relations between an elected government and the ALP allows a Labor government to get on with governing. The proviso is that the government respects and persuades the party. The course of persuasion has a long provenance, initiated by New South Wales Premier William McKell to end the virtual civil war that plunged Labor into crisis in the 1930s. McKell restored Labor's credibility with voters. Cavalier calls this governance the 'McKell Model'. It was a model followed by his successors; New South Wales Labor enjoyed an unprecedented 24 years in office. It underpinned the success of the Wran and Carr Governments and was a guiding principle (often through gritted teeth) for Whitlam, Hawke and Keating.

With a few noble exceptions highlighted in this book, the new political class has neither understanding nor respect for Labor's traditions. This class seems to look forward to the day that Labor governments, state and federal, through public funding and private donations, can dispense with party members altogether. What does this separation of leadership from a grass roots base mean for how Labor governs?

Rodney Cavalier is not an academic. He is that rarer creature in Australia – an intellectual in politics, a man of letters who commands respect as a Labor historian, branch stalwart and party conscience. Some of the chapters in this volume began life as essays

written by the author contemporaneously with the events of 2008 and 2009 by using Labor history to predict that a premier would fall. These essays were published in the *Newsletter of the Southern Highlands Branch*, a journal edited by Cavalier for the past 15 years. Its humble title belies its depth of political insight, sense of history and entertaining prose. *Power Crisis* offers no less.

Preface

In July 2005, Bob Carr announced he was standing down as Premier of New South Wales. Succession would fall to the minister in his Cabinet supported by the dominant Right-wing faction of the Labor Party. Events moved swiftly. The party's General Secretary, Mark Arbib, made clear his preference for the then Minister for Health, Morris Iemma, over the supposed favourite, Carl Scully. A phalanx of MPs from the ALP Right proceeded to align their support with the wishes of the General Secretary. The amount of public discussion was minimal, what was done was done in private. It was done quickly. Carl Scully announced his withdrawal from the race. Iemma proceeded to be unopposed within the Right and unopposed within the State Parliamentary Labor Party.

Within days, Deputy Premier Andrew Refshauge and Planning Minister Craig Knowles resigned from the ministry and the Parliament. In a matter of months, the ALP had lost the ticking heart of the Carr government – Carr himself after 24 years in Parliament; Michael Egan, an energetic Treasurer with interests across all policy, who had first entered Parliament in 1978; Refshauge, nominally on the Left, a veteran of 24 years; Craig Knowles, a man of integrity, in his 20th year as an MP, out of contention because of indiscretions sub-trivial.

Any advantage to the Liberal Opposition was forfeit almost instantly. The Liberal leader, John Brogden, was the subject of newspaper reports of his alleged behaviour in bars with women who were not his wife. Amid concerns about breaches of the privacy of a public figure and the ethics of the reportage, Brogden resigned.

The Liberal Party proceeded to elect a new leader of little experience and next to no judgement. Peter Debnam was a gift to Labor of the kind that comes but once per generation. The Liberals had passed over the incumbent deputy, Barry O'Farrell, the standout in

their ranks and the one obvious leader. Factionalism in the wider Liberal Party had infected the parliamentary ranks.

At the 2007 state election, the Opposition failed to offer an alternative transport policy. It vested great faith in a policy of recycled water, an issue of no concern for the electorate. The slogan employed by the Iemma government was perfectly pitched – 'More to do but we're heading in the right direction' – a message connecting to market research that found major concerns about the provision of basic services by the government. The same research turned up real fears that the Opposition could not be trusted with government. Labor campaigned counter-intuitively by leaking stories that it could lose.

The result was a triumph for Morris Iemma. The large majority that Carr had won in 1999 and retained in 2003 was essentially intact. The son of Italian immigrants, a boy who had taken days off school to act as interpreter to a father in search of work had become the first Premier since 1959 to have succeeded to the office mid-term and won the election following. He had no enemies of significance in a united party. Morris was a husband and father who delighted in the company of his family. His friends and allies dominated the ALP machine. Within his faction there was not a single credible alternative. A triumphant Labor was daring to believe that it was at the mid-way point of another term of 24 years, a worthy successor to the Labor governments in power in New South Wales from 1941 to 1965.

Within 18 months all was in ruins. The Premier felt compelled to resign after being rebuffed by his faction on plans to reconstruct his Cabinet. The new Premier, elected that day from outside the ranks of the dominant Right, was himself gone after another 15 months. Labor had crashed to ruin because its Cabinet was determined to sell the electricity assets of the state. Electricity privatisation had not been an issue in the 2007 poll. The Premier could not claim a mandate for the course his Cabinet was proposing. That course placed it four-square in collision with the policies of the party that the Cabinet claimed to be representing.

Selling public assets was said to be a public benefit beyond debate. The mainstream media and all the specialist commentators on business and politics predicated their every comment on the certainty that all sales of public assets were good, government getting smaller was good, government getting out of public utilities was good. Labor identities of former prominence endorsed the Iemma government's intentions. New South Wales politics now existed inside a wholly different values system from the one that operated as recently as the Wran era, light-years from the values of the policies of reconstruction that had followed the winning of Second World War and the public spending programs designed to win the peace. In those more enlightened distant days, spending was seen as investment. Plaudits went to builders of public assets. The champions of old Labor were those who extended services to those in need. It was a given to old Labor that government was the instrument. Progressive rates of taxation and judicious borrowings were the means of funding the programs of an interventionist state.

The 1980s turned virtue on its head. Governments had to get out of enterprise. Cutting staff and services won applause. Federal Labor under Bob Hawke and Paul Keating had led the way with the sales of the Commonwealth Bank and Qantas. The Howard government had succeeded in selling Telstra. Fabulous sums resulted from these sales of public assets. Some were parked in sovereign funds, much was spent on ongoing programs and tax cuts for the middle class.

The public enterprises of the Australian states had once built a nation. Now state enterprises were said to stand in the way of economic growth. Most of the business of the states, essential services socially vital, ran at a loss. The great exception was electricity – its generation, transmission and supply. Profits were being made with every transaction. The Kennett government in Victoria had made a motzer by selling the state's electricity assets at the top of the market. Bob Carr and Michael Egan had tried in 1997 and failed. They had not tried again. Eleven years later, Morris Iemma was going to try again. He enjoyed the passionate support of his Treasurer,

Michael Costa, a one-time Trotskyist who had become a disciple of market freedom.

The Premier was prepared to stake his leadership on getting his legislation through. The opponents of sale were prepared to exact that price if that was the price of defeating the sale. The battleground was the forms and structures of the Australian Labor Party. The coming struggle etched how unrepresentative was its governance. What follows is not a laying of blame on union secretaries for acting in the interests of their members. The Rules of the ALP vest control of the party in its affiliated unions, a rump that represents some 8 per cent of the voters of the state. None of the victims of the assertion of union power in 2008 ever had cause to complain about union control when it was delivering what they wanted.

Morris Iemma had fallen as Premier, brought down by his own party after he had sought to defy a decision of the party in conference. Fifteen months later Nathan Rees fell as Premier, brought down by his own party because he had implemented a decision of the party in conference. The Labor Party broke in 2008. It will be a long time before people of goodwill are able to put it back together.

The backdrop to this story is the attempt to privatise electricity, told through concentrating on a number of people central to events. It is an attempt to understand how modern Labor governs. The arc of such a story necessarily omits the impressive achievements of these Labor governments in areas like education, the natural environment and the administration of justice. For any Minister for Education to take his or her portfolio out of the firing line is an achievement. The names of Bob Debus and John Hatzistergos do not enter these pages, yet their accomplishments as Attorneys-General are fine stories of public service. Those and other stories of sound public administration are necessarily lost when the leadership of a government is in crisis unending and all too much that is unsavoury becomes public.

I have built this account out of diaries and conversations held during this succession of crises as they were unfolding. Research for the book caused me to seek interviews with many of the participants. For the first time I listened closely to the architects of the aborted privatisation, why they sought to do what they did and what they thought they were saying as they tried to persuade the Labor Party that sale was essential.

I was confident that I knew this narrative and its arc. Daily reportage was of value only to the extent it revealed the thinking of the ministerial proponents of privatisation. The reporters were enthusiasts in a cause, backed to the hilt by their editorial managers. An explanation of the case against sale did not get an airing.

There was no mystery or nuance about what was driving the government. There was no cause to question the motives of the ministers in the Iemma government: genuinely they believed that privatising the state's electricity assets was driven by economic necessity. The funds released would underwrite the government's social programs.

Essays written for a monthly publication are in a register quite different to the demands of a book. The continuing research into the fall of Morris Iemma became overwhelmed by events as it appeared increasingly likely that the leadership of Nathan Rees would also be toppled no later than early 2010. The drama of the 2009 Annual Conference brought on the end-game and a swift resolution. The end of the Rees leadership brought the scope of this book to a definite end.

I am grateful to the many people inside this story who shared their memories. The nature of factional intrigue is that there is no official record, very few bother with (or endanger themselves with) contemporaneous notes. Such battles are not the stuff of email exchanges, though text messages mobile-to-mobile are very revealing. The more distant from events the more readily participants will share a memory. That participants disagree on the course of events does not mean one or the other is not telling the truth as he or she recalls the past. The speed of events piling one upon another in

the course of a crisis does not readily allow for contemporaneous note-taking. Good records of dates and times do anchor a narrative flow and will jog memories in a purposeful way.

To complete the book I spoke to the two former Premiers at length. Morris Iemma enjoys a good and organised memory which he will enunciate in orderly sequence. Nathan Rees, a serving MP, was necessarily less frank about who betrayed him. Others gave extended interviews on the basis that their names would not be revealed. All interviews required phone calls for clarification. The interviewees were remarkably patient in dredging their memories and hunting down notes and records, if they existed.

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Above all I thank Sally Ray for tolerating the mess this writing has created and for continuing to make most everything possible.