

Fixation on competition threatens charity sector

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Business

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Which well-known outfits rake in \$300 million a year, are the size of ASX200 companies, but won't be fronting up to investors this profit season? They're part of a \$75 billion sector that employs about 1 million people, yet rarely rate a mention in these business pages.

The Salvation Army and Mission Australia, two of the country's biggest charities, would both be correct answers. They are thought to be worth \$1 billion each, but the parallels between our largest charities and big business go beyond sheer size. Many in the non-profit sector also speak the language of corporate Australia, freely using jargon such as undercutting rivals, chasing market share, and "growing the business".

But as well as talking the talk of business, in many ways charities are walking the walk, according to evidence before a Productivity Commission inquiry into the not-for-profit sector. Alongside many good deeds, there's a rough-and-tumble world of cutthroat competition between charities which has sparked concerns the sector is becoming less, well, charitable. The trend is a damning indictment of economists' obsession with spreading competition far and wide into new parts of our lives, and the logic behind it.

At the heart of the contest are all-important government contracts to deliver welfare and community services. The fiercest battleground is the Job Network, introduced by the Howard government in 1998 to replace the Commonwealth Employment Service. Instead of bureaucrats placing people in work, the new system offered to pay 300 competing public, business and non-profit groups every time they put an unemployed person in a job. Last month it was renamed Job Services Australia, and competition for its \$4 billion in funds is as fierce as ever.

The executive director of the Brotherhood of St Laurence, Tony Nicholson, recounts how some big unnamed non-profit groups compete in a way more befitting corporate warlords.

"So, typically, what they would do is go into the city or a suburb, rent a vacant shop near a Centrelink office - Centrelink being the government agency for the delivery of pensions and benefits - and put up their shingle and say 'we're here to do business'. And they would compete aggressively for government contracts and even on the odd occasion ... say to governments ... 'we will put additional money on the table to get this contract'," he says in the group's submission, written by Paul Smyth, from the University of Melbourne. Smaller local players have been squeezed, it says, while multinational companies and "mega agencies" Hoover up the work.

For those who can get it, the contracts have become an indispensable source of income. Mission Australia, for instance, gets more than 70 per cent of its funds from the Federal Government, while about half the Salvos' income comes from government.

However, this arrangement also brings plenty of unwelcome baggage.

For one, having a single seller (the government) and many buyers shifts power heavily in the bureaucrats' favour. Jobs Australia, which represents 275 non-profit groups competing for contracts, says the relationship reflects that of a master and servant, making a nonsense of buzzwords like "partnership". Such reliance on government makes it much harder for the sector to speak out against politicians for fear of biting the hand that feeds them.

As well, the need to be businesslike can be an expensive timewaster for groups built on distinctly non-business ideals. A 2007 study from the University of Western Sydney's Social Justice and Social Change Research Centre found that due to contracting, community groups were being tied in bureaucratic tangles involving elaborate tenders, public liability insurance, and myriad government demands.

Worst of all, some say the quality of services has suffered because of competition. The need to keep costs down can mean some stretched groups focus on returns on placing the most "employable" people in job, while the tougher cases slip through the net.

All up, it seems pretty clear that having non-profit groups engaging in cutthroat competition has produced some poor - not to mention perverse - results. So how did we come up with this system in the first place?

Much of the blame can be sheeted home to the rise of competition policy in the early 1990s. The landmark Hilmer report called for government monopolies in welfare and community services to be broken up, just as with telecommunications and airlines. Instead, a "market" would look after job placement and all sorts of other community services. Filling this new demand for social helped fill the pockets of many entrepreneurs including Therese Rein, through her job placement empire, Ingeus.

Forcing charities and businesses to go head-to-head for the contracts was meant to cut the bill for taxpayers and help more people find work. It's now broadly accepted the expense to taxpayers has fallen, but it's clear these savings have come at a hefty cost to many non-profit groups.

But why did economists want to impose competition policy on charities?

Like many problems with economics, this one can be traced to its narrow-minded assumptions about human nature. Forcing charities to behave more and more like businesses was built on the idea that at our core, humans are hardwired to be selfish.

A competitive market would prevent bureaucrats from constantly demanding larger budgets for expanded government grants or schemes. Supporters of the Job Network also claimed it would stop those "rent-seeking" charities from demanding public handouts.

Instead, they would earn money in return for providing services.

One proponent, the British economist Julian Le Grand, said it was best to think of these non-profit workers as "knaves" rather than altruistic "knights" who had other motivations. This might be fair assumption for looking at business people - look at the largesse handed out to chief executives.

But assuming non-profit groups are also populated by "knaves" doesn't make sense, because many of these people clearly have other motivations. Instead, imposing business behaviour on charities has clearly gone too far, and the very idea was built on shaky foundations from its beginning.

Ross Gittins is on leave.

Thank you for reading the Herald.