Conceiving of Telecom and the Politics of Telecommunications, 1967-1972

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In 1975, the Whitlam government established a new statutory authority, the Australian Telecommunications Commission (Telecom), which took over responsibility from the Postmaster-General’s Department (PMG) for domestic telecommunications. This significant reform was the first serious attempt by an Australian government to reconcile the conflicting dual objectives of Australia’s telecommunications policy: the provision of universal services with little regard for cost; and a department of state operating as an efficient ‘business-like’ commercial enterprise.

Labor’s reformist policy was developed between 1967-72 while the party was in opposition. It involved a core commitment to separate the PMG from the Public Service Board and reconstitute the department as a relatively independent statutory authority. This paper examines the origins and development of Labor’s telecommunications policy and contrasts it with the Liberal-Country coalition government’s more incremental approach over the same period. In doing so, this paper seeks to elevate consideration of an important area of policy reform pursued by the Whitlam government that has been largely passed over in historical narratives.

Introduction

In mid-1975, the Whitlam government established a new statutory authority, the Australian Telecommunications Commission (Telecom), which took over responsibility from the Postmaster-General’s Department (PMG)\(^1\) for domestic telecommunications. This was a significant change that, according to Whitlam, was the ‘largest administrative reform in Australia’s history’.\(^2\) It was the first serious attempt by an Australian government to reconcile the conflicting dual objectives that had been at the heart of Australia’s telecommunications policy since federation: the provision of universal services with little regard for cost; and a department of state operating as an efficient ‘business-like’ commercial enterprise.

At its formation, Telecom broadly reflected the recommendations of the royal commission into the PMG established by Labor soon after winning the 1972 election, albeit modified in the parliamentary process and in response to vigorous lobbying by various competing interests, and in the context of the economic and political challenges by then bearing down on the Whitlam government. The reform of the PMG was one of the policies Labor took to the 1972 election, though little noticed by the general public. Its core commitment was to free the PMG from Public Service Board jurisdiction\(^3\) and

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\(^1\) The PMG was commonly referred to as the Australian Post Office (APO). This paper uses the term ‘PMG’ to describe the department, except where direct quotations or document titles refer to the ‘Australian Post Office’ or ‘APO’.

\(^2\) Whitlam, 1985, p. 698

\(^3\) The Board was responsible for ensuring consistent wages and employment terms and conditions across the public service, and for overall staffing levels.
reconstitute it as a relatively independent statutory authority.\textsuperscript{4} The policy had been developed over the preceding five years while the party was in opposition.

This paper focuses on the 1967-72 period, during which the policy was developed. It explores the origins and development of Labor policy and contrasts it with the Liberal-Country coalition government’s more incremental approach. Both Labor’s and the coalition’s policy positions from 1967 were responding to the same broad set of legacy issues and contemporary pressures.

The first section of this paper places the PMG in its historical context. It explores the political, institutional and governance environment in which the department operated from its creation at federation, and identifies the key legacy issues in play during the policy and political debates of 1967-72. The second section considers how technological change and a sustained increase in demand for telecommunications services during the 1960s served as a catalyst for increased operational and financial pressure on the PMG. This exacerbated pressure on the department’s institutional and governance arrangements and in turn intensified the political pressure for reform.

The paper’s third section contrasts the policy approaches of the coalition and Labor during 1967-72. The coalition supported incremental changes that were strictly within the limits of the PMG’s existing institutional and governance arrangements. This reflected the interplay between postmaster-general Alan Hulme’s personal convictions and policy judgments and the Country Party’s vigilant protection of the status quo. The paper argues that Labor’s policy shift in 1967 originated in the convergence of two unrelated factors: a renewed effort by the PMG’s largest union in a decade-long industrial campaign to sever the PMG from the Public Service Board; and the accession of Whitlam as party leader with long-held views on public administration and telecommunications.

\section*{Setting the scene}

Telecommunications was one of the constitutional responsibilities vested with the commonwealth at federation.\textsuperscript{5} As a geographically isolated nation occupying a large landmass with a small and dispersed population, ensuring effective communications was a political, economic, security and social priority of successive Australian governments. Within two months of federation the separate telegraph and postal departments of the former Australian colonies had been brought together under the auspices of a new commonwealth department of state, the Postmaster-General’s Department (PMG).\textsuperscript{6}

From its inception the PMG faced three interrelated challenges. The first related to the planning and operational complexities inherent in managing a large national organisation with wide-ranging responsibilities and a federalist organisational structure enshrined in legislation.\textsuperscript{7} The second was the tension between the PMG’s operational function as an engineering and retail enterprise and its institutional framework as a

\textsuperscript{4} This paper uses the term ‘statutory authority’ to describe the form of government enterprise envisaged by Labor. Many other terms with the same meaning were used at the time, including ‘statutory corporation’, ‘public corporation’, ‘corporation’ and ‘commission’.

\textsuperscript{5} Commonwealth of Australia Constitution Act 1900, section 51(v)

\textsuperscript{6} Moyal, 1984, p.88

\textsuperscript{7} Post and Telegraph Act 1901, sections 4, 5, 6 and 7; APO Commission, 1974, pp. 14-15; Moyal, 1984, p. 245; Reinecke and Schultz, 1983, p. 22
department of state bound by public service governance arrangements. And the third
was being subject to the conflicting dual objectives of Australian telecommunications
policy, to provide universal services with little regard for cost while building national
infrastructure and selling services consistent with business principles of commercial
efficiency.

At the operational level the PMG's responsibilities were vast. They encompassed the
end-to-end provision of Australia's entire domestic telecommunications service, aspects
of its international telecommunications service, virtually all of its postal service and, as
time went on, critical elements of its broadcasting infrastructure and various licensing
obligations. The department's two main responsibilities, the provision of domestic
telecommunications and postal services, were fundamentally different except that they
both provided forms of communication. Telecommunications was a capital-intensive
infrastructure project of great technical and logistical complexity; post, on the other
hand, was a labour-intensive and mostly manual operation.

At the institutional and governance level the PMG was an integrated part of the
commonwealth public service. As a department of state it was subject to direct
ministerial control and to public service governance arrangements; it required
parliamentary support for annual appropriations from Treasury and came under the
jurisdiction of the Public Service Board. The Board was responsible for ensuring
consistent wages and employment terms and conditions across the public service and
for overall staffing levels. However, because the PMG was quite unlike other policy
departments due to the technical and commercial nature of its operations (and also
because it was the largest department), this was always an uncomfortable arrangement.
It meant that PMG senior officials tasked with expanding Australia's national
telecommunications infrastructure and servicing customer demand lacked control over
staff recruitment, staff numbers and the terms on which its staff were employed as well
as being constrained by a short-term capital planning and expenditure cycle.

The PMG's operational and governance challenges were compounded by the conflicting
dual objectives of Australia's telecommunications policy pursued by successive
governments. On one hand, governments wanted essential communications services to
be rolled out universally with little regard for cost. This was a nation-building project
considered critical to economic development and ensuring self-sustaining decentralised
communities all over the continent. But on the other hand, governments wanted the
PMG to conduct its operations consistent with business principles of commercial
efficiency. This was because politicians recognised the commercial nature of the PMG's
operations, but also because the department's capital expenditure requirements made
high demands on the commonwealth budget.

Under ministerial direction and parliamentary oversight, the PMG's pricing model was
inherently political and there was a weak relationship between its costs and revenues.
Telephone line rental charges in country areas, for example, were lower than in the
cities despite the much higher provisioning costs in less populated and more remote
areas, and for many years residential telephone services were priced lower than
business services. An impenetrably opaque and intricate web of politically infused
cross-subsidies operated throughout the department: in general, metropolitan
subscribers subsidised those in the country; businesses subsidised individuals; and
telecommunications subsidised post. Uneconomic pricing contributed to distortions in

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8 APO Commission, 1974, p. 15
9 The Public Service Board replaced the Public Service Commissioner in 1922, which in turn had been
created in 1903.
10 PMG, 1973, volume 5, pp. 224-227; Moyal, 1984, p. 259
demand for services that, in turn, drove network design and expansion, technical priorities and the allocation of finite capital.\(^\text{11}\)

While the PMG’s senior officials thus faced many challenges, they also enjoyed the benefits of operating within a privileged statutory monopoly environment free of market-based disciplines or even government- or parliament-set financial targets.\(^\text{12}\) Their priorities and decisions were guided instead by cultural norms that reflected the policy and political priorities of successive governments and their own genuinely held beliefs about the PMG’s role in national development.

The tension between the PMG’s universal service and commercial drivers was the subject of much early debate. As the department was being created, for example, Australia’s postmaster-general, James Drake, advocated that it operate along ‘business lines’. Drake argued that the PMG should balance its expenditure with its revenues and make up any gap with interest-bearing loans. A government senator asserted however that business principles should give way to a ‘service-oriented’ approach consistent with the national interest of providing to people in country areas the services essential to foster decent living standards.\(^\text{13}\)

Between 1908 and 1921 the PMG was subject to no less than three government inquiries,\(^\text{14}\) each of which recommended that the department be released from external controls over its organisational and staffing arrangements and that it be overseen by a board. These recommendations, strongly resisted by a variety of vested interests, were ignored. The bureaucracy wanted to retain control over the PMG’s personnel arrangements and its finances; PMG state officials wanted to protect their operational autonomy; politicians enjoyed winning new PMG facilities for their electorates;\(^\text{15}\) and country people dependent on obviously uneconomic services feared the consequences of a more ‘business-like’ PMG.\(^\text{16}\)

The PMG was tightly woven into the social and economic fabric of country life. Telecommunications services, while considered essential utilities, were unlike other (state) government utility services such as electricity, gas, water and roads because they went to the heart of social intercourse and facilitated the connectedness of country people with each other and with the wider Australian community. Tens of thousands of people in country areas were also employed by the PMG, and the department was essentially the economic and social lifeblood for many towns and country communities.\(^\text{17}\)

From all of this there developed a government enterprise unique in Australia for its national scale and scope; for the technical and logistical complexity of its operations; and for the intricate interplay between the political, institutional, commercial and social factors that were embedded in it. Until at least the mid-1960s all of Australia’s major political parties sustained and supported this system, with the Country Party being its

\(\text{12}\) An amendment to the Post and Telegraph Act in 1968 provided the postmaster-general and treasurer with the power to jointly set financial targets for the PMG, however it was never exercised.
\(\text{13}\) Moyal, 1984, pp. 90-91
\(\text{14}\) Royal Commission on Postal Services (1908-10): Inquiry on Business Management of the Australian Post Office (1912-13); and Royal Commission Upon the Public Expenditure of the Commonwealth of Australia with a View to Effecting Economies (1918-21)
\(\text{15}\) As prime minister, Billy Hughes once suggested that for all politicians it was ‘the dearest wish of his heart ... for a new Post Office in his electorate, or for increased telephone facilities’. See HoR, 28 April 1921, p. 7865, quoted in McLean, 1984, p. 24
\(\text{16}\) APO Commission, 1974, pp. 53-55; PMG, 1973, volume 1, pp. 23-29; Moyal, 1984, pp. 97-103, 258-260
\(\text{17}\) Brett, 2011, p. 23; Davey, 2008, p. 82
most vigilant and energetic champion and, until the Liberal-Country coalition government lost office in 1972, the greatest inhibitor to reform. In 1967 this political consensus was broken by Labor’s adoption of a new policy that called for the PMG to be freed from the Public Service Board and reconstituted as a relatively independent statutory authority.

An increasing need for reform

During the 1960s, the widening scope and accelerating pace of technological change, combined with a sustained growth in demand (well beyond what the PMG could satisfy), made clear that changes were needed to the federation-era system in place. This put the PMG under greater operational and financial pressure that, consequently, placed direct pressure on the institutional and governance arrangements within which it existed. And this, in turn, intensified the political pressure for reform.

Technological advances and higher demand

As a consequence of technological advances, the quality of the PMG’s voice services improved during the 1960s and its service range expanded from voice and telex to encompass new and more sophisticated data services. From 1960 the department had been working methodically to automate its national network of manual switches (the equipment that enabled calls to be directed between two phones on the network) to achieve a universal direct-dial telephone network within Australia.\(^\text{18}\) After a decade, the percentage of national long distance calls that could be direct-dialed rose from a negligible two percent to over 83 percent; and the percentage of telephone services operating over automatic exchanges rose from 79 percent to 93 percent.\(^\text{19}\) In parallel, large organisations with geographically dispersed sites were integrating new data transmission systems into their operations to rapidly disseminate information between locations. The Department of Civil Aviation and Australia’s two domestic airlines were early adopters. The practice of the department’s large business customers of leasing PMG lines in order to install their own data switching systems provided a hint of a more innovative and unpredictable telecommunications sector, and also prompted the PMG to embark upon its first, and unsuccessful, attempt to build its own data network.\(^\text{20}\)

During this period the demand for telephone services surged. Service improvements were a factor in this, as were the growing number of larger scale businesses operating in Australia and new suburbs opening up in the cities. However, the rate of demand growth was consistently higher than the rate of population growth, suggesting also that rising community expectations about telephone ownership and too-low pricing for new connections played a role. (The connection fee charged by the PMG in 1971 for a new telephone service, for example, was $50, whereas the actual connection cost was about $1,800 in metropolitan areas and $20,000 in some rural areas.)\(^\text{21}\)

The number of PMG telephony services in operation rose by over 70 percent during the last ten years of coalition government, to 3.1 million, with nearly 40 percent of services being located in regional and rural areas. Over the same timeframe, more people and businesses were using more services more often, meaning that the proportion of expenditure on telecommunications also increased as did community and business

\(^{18}\) PMG, 1960, p. 9; Moyal, 1984, p. 225; see also Commonwealth of Australia, 1959

\(^{19}\) PMG, 1973, volume 4, p. 412

\(^{20}\) Moyal, 1984, pp. 280-284

dependence on the PMG’s services. Usage rates for local calls rose by about 70 percent and for national long distance calls by over 220 percent in the ten years to 1972. On a typical weekday in Australia that year, the PMG handled 11.5 million local calls and 950,000 national long distance calls.\textsuperscript{22}

By the coalition government’s latter years, the PMG’s sheer scale and its demand for capital were becoming increasingly problematic. It was by far Australia’s largest enterprise, having doubled in size with respect to staff numbers and assets value in the 25 or so years since the end of world war two.\textsuperscript{23} With 112,000 permanent staff by the early 1970s, the PMG employed more than twice as many people as Australia’s largest company, BHP, and its $3 billion of fixed assets dwarfed BHP’s $1.8 billion.\textsuperscript{24} Within the public service, the PMG accounted for nearly half of all staff employed across the government’s 27 departments and 17 associated boards and agencies.\textsuperscript{25} The department was the largest single employer of engineers in Australia and its capital program was spread over thousands of telecommunications projects across the nation, ranging from suburban cable laying to linking Mount Isa and Darwin by a microwave radio system. By 1972, the annual capital expenditure of the PMG’s telecommunications division was second only to Defence, reaching nearly $540 million, of which 75 percent ($409 million) was for network expansion and modernisation.\textsuperscript{26}

\textit{Rising institutional and governance pressure}

The combined effect of these technological, operational and commercial dynamics placed intense pressure on the PMG’s institutional and governance arrangements, which had remained essentially unchanged since federation. In an environment that had become faster, more fluid, more technically complex, and which required more capital expenditure, the PMG’s institutional and governance arrangements were inflexible, with low management sovereignty and subject to arbitrary political interference.

The PMG’s enabling legislation, the \textit{Post and Telegraph Act 1901}, locked the department into a rigid organisational structure. It mandated the PMG’s strongly federalist structure, in which its state branches were highly autonomous, and the department had dual responsibility for Australia’s domestic telecommunications and postal operations.\textsuperscript{27} In the context of the latter 1960s, the requirement to operate a rapidly growing, technologically dynamic and capital-intensive telecommunications division alongside a largely low skilled labour-intensive and economically stagnant postal division caused growing strains, not least because telecommunications surpluses were used year-after-year to subsidise postal losses.\textsuperscript{28}

The Public Service Board’s jurisdiction over PMG staff wages and employment terms and conditions, including role classifications, promotions, internal organisational arrangements and recruitment, directly weakened the efforts of PMG senior officials to grapple with the operational and commercial challenges they faced. Even when the Board ultimately approved PMG proposals related to its internal organisation, the delay could take upwards of a year.\textsuperscript{29} Moreover, PMG management could not negotiate

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\textsuperscript{22} APO Commission, 1974, pp. 12-13, 51; PMG, 1973, volume 1, pp. 46-49, volume 4, p. 412
\textsuperscript{23} PMG, 1973, volume 1, p. 50
\textsuperscript{24} Maiden, 1972, p. 2
\textsuperscript{25} APO Commission, 1974, p. 13; PMG, 1973, volume 5, p. 218; Lloyd and Reid, 1974, p. 237
\textsuperscript{26} PMG, 1973, volume 3, pp. 300-302; PMG, 1974a, p. 12; Maiden, 1972, p. 2
\textsuperscript{27} \textit{Post and Telegraph Act 1901}, sections 4, 5, 6 and 7; APO Commission, 1974, pp. 14-15; Moyal, 1984, p. 245; Reinecke and Schultz, 1983, p. 22
\textsuperscript{28} APO Commission, 1974, pp. 36-37
\textsuperscript{29} PMG, 1974a, p. 4
\end{flushright}
directly with its staff (in practice their union representatives) nor represent its own interests at industrial arbitration hearings.\textsuperscript{30}

The block on direct negotiations between PMG management and unions was also a major source of tension with the unions themselves and was the primary driver of the industrial disputes that wracked the PMG from the mid-1950s and through the 1960s.\textsuperscript{31} While the number of working hours lost to industrial action by PMG employees was consistently less than the Australian national average,\textsuperscript{32} the level of business and community disruption that it caused served to highlight the centrality of the PMG’s services to Australia’s economic and social life. One Melbourne shop manager, for example, described in early 1972 how since before the previous Christmas he had ‘set up office each day in a St Kilda phone booth’ because industrial action had prevented his ‘dead’ phone from being repaired.\textsuperscript{33}

The arrangements governing the PMG’s financial affairs also worked against the efficient delivery of telecommunications services in the more operationally complex and capital hungry context of the 1960s. The PMG had only two sources of funding – service revenue and Treasury appropriations – both of which were heavily influenced by political considerations. As already discussed, the PMG’s prices were inherently political due to the universal service objective; they were driven not by underlying costs but by ‘gut feel’ judgments about what was politically acceptable and their effect on demand. (A standard method to reduce politically sensitive waiting lists for new services was to tweak connection charges.) Moreover, changing prices for basic services such as connection charges and call rates, which comprised the lion’s share of the PMG’s telecommunications revenues, required parliamentary approval. This meant that price changes were not only political but also driven by parliamentary timeframes rather than commercial imperatives.\textsuperscript{34} Most members of parliament, especially from the Country Party, cherished this traditional level of direct control over the PMG’s operations, with one arguing that:

\begin{quote}
\ldots Last year, for example, there was a proposal to increase trunk line charges\textsuperscript{35} \ldots at the rate of 50%, some at 10% and others at 25% \ldots there was no standardisation. Some people were hit to leg and others were let off almost scot-free \ldots fortunately the Department was persuaded to reframe it before it came into effect. Now everyone is slugged by about the same additional amount. That is an instance of the way in which parliamentary control operates to assist the Department to manage its affairs, and it is a very important aspect.\textsuperscript{36}
\end{quote}

Treasury funds were provided in an annual parliamentary appropriations round, meaning that the amount ultimately approved was largely a function of political considerations and budgetary trade-offs. It also meant that the PMG was locked into short-term and rigid capital planning and expenditure cycles. In November 1966, the PMG’s director general, Trevor Housley, said that this system:

\begin{quote}
\ldots permitted [the PMG] to seek only to meet developing demands as they press upon it. There is need, however, for a more forward-reaching approach so that
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\begin{footnotesize}
\begin{enumerate}
\item Moyal, 1984, pp. 259-260
\item PMG, 1973, volume 5, pp. 512-513; Waters, 1978, p. 118
\item 1970: PMG lost 3.36 working hours per employee, Australian average 4.38; 1971: 1.28 and 5.49 respectively; 1972: 0.6 and 3.71 respectively. See PMG, 1973, volume 5, p. 514
\item ‘Don’t call me – I’ll call you’, \textit{The Bulletin}, 22 January 1972. It was also reported that Prime Minister McMahon had requested a telephone connection at his holiday home but ‘was declined.’
\item PMG, 1973, volume 4, p. 450
\item National long distance charges
\item Ian Allen, Country Party member for Gwydir, HoR, 2 May 1968, p. 1069
\end{enumerate}
\end{footnotesize}
the Post Office can develop and encourage the use of more efficient tools of government and administration, of those services which make a positive contribution to better management. When it can do this, Australia will realise the full potential of government through communications.\textsuperscript{37}

The wide-ranging operational and financial impacts on the PMG of technological change and sustained high demand during the 1960s placed direct pressure on the PMG's institutional and governance arrangements and made plain that the incumbent policy framework was not fit for purpose. These were the factors that underpinned the coalition's and Labor's policy approaches to the PMG and telecommunications during the 1967-72 period. The following section examines in detail the respective approaches taken by the coalition and Labor.

### Alternative policy approaches and the politics of 1967-1972

**The Liberal-Country coalition government**

The key individual guiding coalition government policy on the PMG and telecommunications during its last nine years in office was Alan Hulme, who was appointed postmaster-general by Menzies in 1963 and then served under Holt, Gorton and McMahon before retiring at the 1972 election. Hulme had previously been an accountant and company director and was a prominent figure in establishing the Liberal Party's Queensland branch. He had a strong affinity with country Australia and represented an outer-Brisbane semi-rural electorate. Consistent with his professional background and nature, Hulme was a diligent and conservative postmaster-general whose integrity and administrative skills were widely acknowledged.\textsuperscript{38} Whitlam considered him 'a man of very great skill and experience.'\textsuperscript{39}

Hulme was committed to the traditional dual objectives guiding the PMG; to provide universal services while operating in a 'business-like' manner. Recognising the inherent tension between these objectives, Hulme was convinced that direct ministerial control was necessary to ensure the delivery of commercially unviable services to country areas and, as such, he was committed to maintaining the PMG as a department of state subject to public service governance arrangements and responsible for both telecommunications and postal services.\textsuperscript{40} So while Hulme was cognisant of the many challenges being faced by the PMG, he strongly believed that implementing incremental administrative changes within the existing policy framework was sufficient to address them.

**Incremental financial reform**

Perhaps reflecting his accounting background, Hulme focused on the PMG's financial arrangements. He believed that the procedures governing the department's access to its revenues and to Treasury funds were too restrictive for a commercial enterprise and sought options to ameliorate this. In April 1967 Hulme supported the recommendations of a report jointly prepared by the PMG and Treasury to, firstly, give the PMG's senior

\textsuperscript{37} From a paper presented by Housley at a Royal Institute of Public Administration conference on 23 November 1966, quoted in HoR, 1 May 1968, p. 1004


\textsuperscript{39} HoR, 19 August 1965, p. 234

\textsuperscript{40} Moyal, 1984, p. 262
officials greater financial flexibility in order to drive more commercial efficiency; and secondly, as a corollary, to require of them greater financial transparency as a means to increase accountability. The joint PMG/Treasury recommendations were essentially copied from the administrative financial reforms that Britain’s Conservative government had introduced for the General Post Office (GPO)\textsuperscript{41} six years earlier. The coalition’s decision was announced during the treasurer’s budget speech in August 1967\textsuperscript{42} and proposed amendments to the Post and Telegraph Act were introduced into parliament the following April. While the Whitlam-led opposition backed the government’s legislation in parliament, it also strongly criticised the proposed reforms for being too little too late.

From 1 July 1968 the PMG’s forecast annual expenditure requirements would no longer have to be segmented into individual items and voted on by parliament as line-by-line appropriations. Instead, the department’s entire expenditure budget would be voted on by parliament as a single appropriation and be paid into a ‘trust account’, with interest on Treasury funds to be payable as they were drawn down. The PMG’s revenues would also be paid into the ‘trust account’ for the department’s discretionary use rather than going into consolidated revenue.\textsuperscript{43} The PMG thus gained a higher degree of financial autonomy but only within the considerable constraints of the prevailing policy settings.

In Hulme’s speech introducing the government’s bill to parliament, the tight policy boundary within which he was operating was clear. The broad dynamics of the PMG’s operating environment were acknowledged (Hulme said that the bill’s objective was ‘to establish financial arrangements for the Post Office more appropriate to its role as a business undertaking’) yet the department’s financial governance was the only area earmarked for change and even then only within existing government structures:

The Post Office, like all business undertakings, is required to make business judgments and decisions. It must react quickly to variations in demand for its services, and is subject to the added discipline of planning its expenditure with an eye to the revenue and the net financial out-turn it will yield, as well as to the service rendered to the community including what might be termed ‘the less economic areas’. Whilst the Post Office has been expected to conduct its affairs on a business basis, it nevertheless has continued to operate within the same financial machinery as any other department of state. These operations are not suited to the operations of a business undertaking and, in fact, detract from the ability of the Post Office to operate efficiently .\textsuperscript{44}

With respect to the second leg of Hulme’s reform, to do with increasing the PMG’s financial transparency as a means to raise accountability, the department would be required to provide the postmaster-general with more detailed information on its revenues, expenditures and capital program in an annual report to be tabled in parliament. Hulme quite reasonably would have believed that this measure would raise departmental officials’ accountability when they exercised their new financial autonomy, but he was also quick to assert that it would result in ‘enhanced’ parliamentary control over the PMG, as well as driving greater commercial efficiency:

Parliament and the people will be better informed on Post Office matters and there will be a clear understanding of the Department’s finances. It is expected

\textsuperscript{41} The GPO was the British government agency responsible for telecommunications and postal services. In 1967 it was a department of state; it became a statutory authority in 1969.
\textsuperscript{42} PMG, 1973, volume 1, p. 43, volume 4, p. 464
\textsuperscript{43} APO Commission, 1974, p. 27; PMG, 1973, volume 1, p. 43; Moyal, 1984, p. 258
\textsuperscript{44} HoR, 4 April 1968, pp. 840-841
that the greater flexibility will encourage and sustain improvements in Post Office managerial efficiency and economy ...\(^{45}\)

Hulme’s bill also gave the postmaster-general and treasurer powers to jointly set formal financial objectives for the PMG, however these powers were never exercised.\(^{46}\) This was indicative of the coalition’s failure on the one hand to reconcile the determination of the Country Party and some Liberals to protect the system of politically arbitrary and opaque rural subsidies that operated within the PMG and, on the other, the wish for the PMG to operate consistent with business principles of commercial efficiency.

So while Hulme’s reform reflected a direct response by the coalition government to the broad dynamics prevalent in the 1960s and was thus an acknowledgement by the coalition that the status quo model of telecommunications service delivery was unsustainable, it also showed the severe limitations of the coalition’s willingness to consider making policy changes. The tension within the coalition (and also within the PMG) was on where to draw the line between universal service provision and commercial efficiency. The government was prepared to give the PMG more tactical financial freedom but entirely unwilling to weaken direct ministerial or public service controls despite expecting the department to ‘conduct its affairs on a business basis’. As a Liberal MP with a country electorate expressed it, an advantage of using a department of state to provide telecommunications services was that it was more ‘susceptible to pressure’ from politicians to provide uneconomic services than would be a relatively independent statutory authority (as was being advocated by Labor).\(^{47}\)

\textit{Inhibitors to more substantive change}

While Hulme was committed to retaining the PMG as a department of state under direct ministerial control and subject to the jurisdiction of the Public Service Board, it is likely that he was prepared to implement other measures to promote greater commercial efficiency but was stymied in cabinet by the Country Party.\(^{48}\) There are also suggestions that Hulme was pushed by his Country Party colleagues to provide more generous subsidies to rural PMG telephone subscribers than he considered financially responsible. For example, Hulme bowed to pressure in August 1970 to introduce a rural subsidy program, backdated by 18 months to replace an earlier subsidy program announced less than two years before, in which the PMG would absorb almost all of the cost to upgrade country telephone lines between private properties and their local exchange as part of its broader exchange automation project (discussed earlier). The cost of this subsidy was uncapped and reportedly described by Hulme shortly after it commenced as a ‘financial disaster’.\(^{49}\) The program incurred a loss of $5 million in its first full year (1971-72) and the PMG forecast in 1972 that its annual losses would more than double by 1974-75 to $11.1 million, nearly triple by 1975-76 to $14.2 million and more than double again by 1983-84 to around $30 million.\(^{50}\) The economist ‘Nugget’ Coombs strongly criticised the (still ongoing) program in a 1973 report to Whitlam for placing ‘a severe strain on the capital and other resources available to the Post Office. It diverts capital resources from growth centres, where unsatisfied demand is growing rapidly, and from other forms of telecommunications investment.’\(^{51}\)

\(^{45}\) ibid, pp. 840-841
\(^{46}\) APO Commission, 1974, p. 27; PMG, 1973, volume 1, p. 43; Moyal, 1984, p. 258
\(^{47}\) Dugald Munro, Liberal member for Eden-Monaro, HoR, 1 May 1968, p. 1009
\(^{48}\) HoR, 25 July 1974, p. 695
\(^{49}\) HoR, 28 May 1975, p. 2902
\(^{51}\) Task Force, 1973, p. 120
Another factor that worked against more substantive reform (or even the serious consideration of more substantive reform) by the coalition to the arrangements governing the provision of telecommunications services was its generally lacklustre approach to administrative reform across the board during its long postwar period in government. With respect to the PMG, only two policy adjustments were made by the coalition before Hulme's 1968 financial reform. From the mid-1950s the department was required to report annually on its revenues and expenditures; and from 1960 it was required to pay interest on the Treasury funds it had accessed since federation (a burden subject to much political debate).\(^52\) During his final year in office, Hulme did support and work to implement an 'area management' strategy for the PMG that was, as with the 1968 reform, based on advice from within his department (this time working with the Public Service Board) and sought to replicate a concept being considered by Britain’s GPO as well as in Sweden.

The area management plan was for operational decision-making and financial accountability to be devolved from the PMG's six state directors to 32 'area managers', who would have responsibility for all technical, commercial and customer service functions in their respective area. As he had in 1968, Hulme argued (reasonably) that his reform would drive 'a more effective and business-like basis for our telecommunications operations' – but strictly within the constraints of the existing policy framework of domestic telecommunications (and postal) services being provided by a functionally united department of state subject to direct ministerial and public service control. Hulme also anticipated that implementing area management would be 'phased over a period of several years'. This suggested a completion target sometime in the latter 1970s and highlighted the coalition's unhurried approach to telecommunications reform despite the sector's increasingly dynamic and complex operating environment. As it was, area management was killed off, just as it was about to launch, by the newly elected Whitlam government.\(^53\)

In the absence of drive from within the coalition for more substantive reform, there was simply no politically compelling pressure on the government in the 1967-72 period to do more than it did. Neither the reforms cautiously proposed from time to time from within the PMG\(^54\) nor the periodic calls from business groups for the department to be freed from Public Service Board jurisdiction\(^55\) nor the consistent calls by the Labor opposition for more substantial reform (discussed below) were any match for the Country Party's vehement resistance to change or Hulme's own commitment to cautious incremental reform within existing structural and governance arrangements.

Indeed, in the 1960s it could be argued, and the coalition did,\(^56\) that the current model – a department of state run by technical experts operating under direct ministerial control and tasked with efficiently delivering universal services – was, while imperfect, operating reasonably well. The network was expanding; the quality of services was improving; and new technologies were becoming available. For example, during the last ten years of coalition government, waiting lists for new telephone services declined from 45,500 people to 13,250 despite the total number of services in operation increasing by 1.4 million.\(^57\) And from the limited benchmark data available it appeared that Australia was performing acceptably with respect to the number of telephone

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\(^{52}\) PMG, 1973, volume 1, pp. 30-33; Moyal, 1984, pp. 257-258


\(^{54}\) PMG, 1973, volume 5, pp. 524-525; Moyal, 1984, pp. 260-262

\(^{55}\) HoR, 18 May 1967, p. 2421

\(^{56}\) See Senate, 28 May 1968, p. 1158

\(^{57}\) PMG, 1973, volume 4, p. 412
services in operation per 100 people, ranked seventh in the world, especially when its wide open spaces were taken into account.58

An unsustainable drift

The government’s business-as-usual policy approach was also reflected at election time. The coalition’s leaders had little to say about the PMG or telecommunications on the national stage. Liberal prime ministers Gorton and McMahon did not mention either subject in their respective policy speeches in 1969 and 1972.59 Country Party leader Jack McEwen was similarly silent in 1969; and three years later his successor Doug Anthony was content simply to reassert his party’s traditional aspirations for ‘good telephone communications for all Australians’ and a move ‘towards a single unit charge for telephone calls in Australia’.60

Yet when the coalition lost office in 1972, the PMG was far from being an organisation able to fulfill its dual objectives of providing universal services while operating along business principles of commercial efficiency. It was estimated in 1973 that in the absence of changes to the department’s pricing levels and capital program, its requirement for Treasury funds would more than double in the three years from 1972-73, from $288 million to $652 million. Such an eventuality would have represented a decline in the percentage of the PMG’s expenditure able to be self-financed through its own revenues from nearly 41 percent in 1972-73 to just 14 percent in 1975-76.61

The Labor opposition

The Labor Party’s policy approach to the PMG and telecommunications from 1967 was, like the coalition, in response to the broad dynamics of the 1960s and the impacts they were having on the department and its ability to fulfill its responsibilities. However, Labor’s new policy broke the general political consensus about the PMG and telecommunications policy that had existed since federation and it went on to form a significant and enduring part of the changed policy landscape put in place by the Whitlam government after 1972. It is also an area of policy reform that has been underdeveloped in existing historical narratives.

The immediate trigger for Labor’s policy shift was the convergence of two unrelated factors: first, a renewed push by the PMG’s largest union, the Labor-affiliated Amalgamated Postal Workers’ Union (APWU), in its decade-long drive for better wages and working conditions; and second, Whitlam’s rise to the Labor leadership.

The APWU’s role

The APWU was the largest of the 28 unions and staff associations representing PMG employees. It had around 40,000 members, who were split almost equally between the PMG’s telecommunications and postal divisions, and included the department’s 19,000 lines staff (who undertook some of the telecommunications division’s manual tasks such as hanging aerial wires, digging in cables and building transmission towers) as well as letter and parcel handlers, post office counter staff and postmen.62 The institutional

58 PMG, 1973, volume 1, p. 80
59 Gorton, 1969; McMahon, 1972
60 McEwen, 1969; Anthony, 1972, p. 48
tension between PMG senior officials and the Public Service Board was also felt by the APWU’s senior officials, who viewed the Board’s jurisdiction over the PMG as a block on their ability to win higher wages and better employment terms through direct negotiations with departmental management. This tension intensified after 1956, when APWU members went on strike for the first time, and continued throughout the 1960s as strikes and black bans became frequent events. Most of these industrial actions were over pay disputes, which comprised 80 percent of working hours lost during the period.63

Following its 1956 strike, the APWU sought at Labor’s 1957 federal conference two changes to the party platform: that ‘the control of the PMG’s Department should be vested in a Commission, and removed from any control of the Public Service Board’; and for the repeal of the Public Service Act provisions enabling striking public sector workers to be sacked. The latter resolution was adopted but the former was not, and splitting the PMG from the Board and reconstituting the department as a statutory authority became one of the APWU’s standing core objectives.64

The union’s campaign gained political traction in the mid-1960s as the times came to suit it. In the context of ongoing industrial disputes involving the union, and the broad dynamics challenging both the PMG’s operations and its institutional and governance arrangements, two events occurred. Britain’s Labour government announced in 1966 that it would reconstitute the GPO as a statutory authority and, crucially, Whitlam became Labor leader early the following year. The British announcement energised the APWU’s campaign and the union resolved at its 1966 conference that ‘the Post Office should be transformed into a Public Corporation similar to the proposed Corporation in the United Kingdom’.65 The following year, two of the APWU’s state branches took resolutions to Labor’s federal conference calling for the PMG to be ‘divorced’ from the Public Service Board and for the department to become a statutory authority ‘on the lines of the Post Office Corporation established by the Wilson Labor [sic] Government’.66

In between these two rounds of union resolutions, Whitlam became Labor leader.

Whitlam’s role

Whitlam’s accession to the leadership at this time was important for three interrelated reasons. Firstly, his top priority other than internal party reform was to develop a platform of modern, pragmatic and politically appealing policies.67 The APWU provided Whitlam with a ready-made policy consistent with his policy instincts and his political objectives. Secondly, Whitlam had a voracious and wide-ranging appetite for policy reform.68 He was contemptuous of what he perceived to be the atrophy of Australia’s administrative structures, of which the PMG was by far the largest and arguably the most important, after nearly 20 years of coalition government:

> Technically there is no field of government in Australia which is so advanced as the Post Office. Structurally there is no field of government in Australia that is so archaic as the Post Office. What substantial business in Australia would have changed its structure so little as the Australian Post Office?69

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63 PMG, 1973, volume 5, p. 533; Waters, 1978, pp. 118, 158, 170-185, 239
64 Moyal, 1984, p. 260; Waters, 1978, p. 239
65 Waters, 1978, p. 197
67 Hocking, 2008, p. 279; Whitlam, 1985, pp. 4-7
69 HoR, 2 May 1968, p. 1066
And thirdly, regarding the provision of domestic telecommunications services, Whitlam believed that it was the coalition's direct political interference in the PMG's operations, facilitated by its governance arrangements, that was primarily responsible for the level of the department's ongoing dependence on Treasury to fund capital expenditure and its chronic inability to keep up with demand. This was consistent with Whitlam's view that government enterprise inefficiency was invariably due to political manipulation rather than to any inherent weakness in public administration. As early as 1965 he asserted that he did not approach telecommunications policy 'as a philosophical or ideological issue' and, while agnostic about any particular organisational structure for the PMG, argued that the provision of telecommunications services should be both free of direct political interference and guided by what would later be termed 'user pays' principles. Whitlam said that his 'attitude towards the financing of telephones is that the persons who use the service should pay for them. They should pay for the capital and pay for the running of the service.'

So while it was not Whitlam (or caucus or one of Labor's policy committees) who initiated the party's new policy on the PMG, his accession to the Labor leadership in February 1967 fostered an environment more open to fresh ideas. At the party's federal conference six months later its economic planning committee, which included Whitlam, Frank Crean, Jim Cairns and Bob Hawke, successfully proposed that Labor adopt as policy the 'severance of the Postmaster-General's Department from the Public Service Board and the Department to be controlled by a Corporation.'

Policy development

The 1967 party conference was in effect ratifying an earlier decision however, for the parliamentary caucus had already begun pushing the new policy some months before. In a parliamentary debate in May about PMG price increases, Western Australian MP Harry Webb, a prominent participant in debates on the PMG, called on the coalition to release the department from the Public Service Board’s 'heavy hand' so that it could be 'run as a business undertaking, on business lines.' By this Webb meant that the PMG should be free to put on more staff in response to surging demand and also that departmental management and the unions should be able to negotiate directly on wages and employment terms. The logic was that improved service provision would flow directly from industrial harmony. Labor’s position assumed that Australia’s long economic expansion would continue and contained an implicit faith that the PMG and the unions, despite providing essential services under a privileged statutory monopoly, would reach amicable and commercially responsible terms with each other. (Some PMG officials, while wanting to be freed from the Public Service Board, were less optimistic that this would be the outcome.)

It can be seen therefore that in 1967 Labor’s new policy on the PMG strongly reflected its APWU origins and was focused on industrial relations. By the following year however, when the coalition and Labor debated Hulme’s financial reform, the opposition’s advocacy for ending the Public Service Board’s jurisdiction over the PMG and reconstituting the department as a statutory authority revealed that Labor’s perspective had broadened. Labor grappled directly with the strategic issues undermining the PMG’s ability to provide universal telecommunications services in a commercially efficient way. While the industrial relations aspect of its policy remained

70 HoR, 19 August 1965, p. 234; Whitlam, 1985, p. 215
71 HoR, 19 August 1965, pp. 233-236
72 Australian Labor Party, 1969, pp. 22, 85-86
73 HoR, 10 May 1967, p. 1951
74 Maiden, 1972, p. 2
core, the party also focused on the inadequacy of the PMG’s financial governance arrangements; the department’s subjection to direct political interference; the web of opaque (mostly rural) subsidies that this spawned; and the need for greater nimbleness in the domestic telecommunications sector given the pace of technological change and its key enabling role in economic and social development. And though during the debate the opposition drew heavily on a British government report that detailed that country’s politically bipartisan plans to reconstitute the GPO as a statutory authority, Labor’s arguments also directly reflected Whitlam’s own views as expressed some years before.

Labor was prepared to give parliamentary support to Hulme’s financial reforms, however it strongly criticised them for being too little too late. The opposition argued (as did the PMG) that one of the core structural flaws governing the PMG – and unaddressed by Hulme’s reform – was its dependence on annual Treasury appropriations that forced it into operationally and commercially inefficient short-term capital project planning and implementation cycles. A statutory authority that was able to borrow funds and, said Whitlam, was released from ‘the tyranny of the Budget’, could plan its network and services a number of years ahead in a way that ‘might result in really significant improvements in the quality of Australian communications’.

Labor also argued that reconstituting the PMG as a statutory authority would enable it to deliver universal telecommunications services in a more commercially efficient and rational manner. This was consistent with Whitlam’s convictions that government enterprises were just as economically efficient as the private sector so long as they were not subject to political interference; and that prices should be set such that the PMG’s telecommunications revenues more closely matched its expenses. The policy objective of universal service provision was not in question, however the opposition argued that where uneconomic services were provided due to public policy they should be funded by direct and transparent government subvention. During the debate Whitlam argued that were a statutory authority to provide domestic telecommunications services it would be less vulnerable to ‘direct political manipulation [and] could begin to follow a pricing policy geared to international criteria and to insist that where communication subsidies are judged desirable they should be provided by open rather than covert means.’ This position was effectively the polar opposite of that held by Country Party MPs and many Liberals, including Hulme.

And thirdly, Labor argued that the accelerating pace and scope of technological change, and telecommunications’ key role in facilitating social and economic development, meant that much more fundamental structural change to Australia’s institutional arrangements was required than the coalition’s relatively modest adjustments to the PMG’s financial autonomy. Labor MP Harry Webb contrasted the speed of technological developments with the ‘snail like pace’ of the PMG and asserted that while Australia’s population and economy would continue to grow the ‘old established system ... will not meet the complexities of the future.’ Whitlam accused the coalition government of ‘betray[ing] its professed loyalty to the values of enterprise and efficiency by hesitating and procrastinating on the matter’ and noted that even ‘Britain’s Socialist Government

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75 Reorganisation of the Post Office, HMSO, London, 1967
76 PMG, 1973, volume 4, pp. 465, 489
77 HoR, 2 May 1968, p. 1066
78 HoR, 19 August 1965, pp. 233-236; Whitlam, 1985, p. 215
79 HoR, 2 May 1968, p. 1066
80 HoR, 1 May 1968, p. 1004
has recognised the futility of administering the Post Office as a department of the Crown and has re-established it instead as an independent statutory corporation.  

During the 1968 debate Labor also sought the coalition government's support to establish a joint select parliamentary committee with wide-ranging terms of reference and a mandate to call expert witnesses to 'inquire into the desirability of removing the Australian Post Office from the administrative influence of the Public Service Board and of establishing a public corporation to control the business of the Post Office'. The opposition's proposal, framed as an amendment to Hulme's bill, was advanced in the midst of a heated parliamentary debate and took Hulme by surprise. But it was a genuinely bipartisan plan (the opposition pointed out, for example, that the government would have a majority on the committee); an acknowledgment by Labor that its vision for PMG reform had substantial policy, administrative and logistical implications; and was consistent with Whitlam's call for an 'analytical approach to the problems of the Post Office'. Nonetheless, the coalition was unmoved and uninterested. During the remainder of its period in opposition, Labor MPs pushed consistently, and unsuccessfully, for a wide-ranging inquiry into the PMG, sometimes attacking the government for its intransigence and at other times bending over backwards to be conciliatory. After winning the 1972 election, one of the Labor government's earliest acts was to establish a royal commission to conduct an end-to-end review of the PMG and provide recommendations on a path forward.

During 1970-71 Labor policy on the PMG went through further refinement. The opposition began suggesting that domestic telecommunications and postal services might be more efficiently and effectively delivered by separate organisations. (Since the late 1960s some PMG senior officials had discussed and supported stronger separation between telecommunications and postal operations within a unified department, however Hulme was opposed, as was Eber Lane, his director general from January 1972.) The underlying driver of Labor's thinking was the increases to telecommunications charges legislated by the coalition in 1970 and 1971 (while it also announced the uncapped and retrospective rural subsidy program discussed earlier) to primarily generate surpluses sufficient to offset postal losses. While the coalition blamed the PMG's financial woes on rising labour costs and Labor blamed the department's interest liability to the Treasury for funds advanced, the opposition's core argument was that the government's actions were simply another manifestation of the current system facilitating an impenetrable web of politically-infused subsidies. The opposition suggested that providing technologically advanced and commercially viable telecommunications services separate from labour-intensive and loss-making postal services was consistent with its position favouring the use of direct and transparent government subvention to fund uneconomic services being provided in fulfillment of public policy objectives. Labor also sought to wedge the coalition parties, arguing that a profitable stand-alone telecommunications unit would be better able to hold down prices and potentially fulfill the Country Party's core aspiration of concessional telephone rates in rural areas.

81 HoR, 2 May 1968, p. 1066
82 HoR, 1 May 1968, pp. 1000-1005
84 Cabinet Submission, 1973; Cabinet Minute, 1973; Lloyd and Reid, 1974, p. 244; Moyal, 1984, p. 264
85 Moyal, 1984, pp. 260-263
When campaigning during the 1969 and 1972 elections though, Whitlam’s policy speeches approached the PMG through the prism of industrial relations. The department was presented as a key exhibit in his case against the coalition’s poor industrial relations performance and, by extension, its poor economic management. It also featured in Whitlam’s objective to increase Labor’s appeal to white-collar middle class professionals. In 1969 Whitlam declared that ‘most industrial unrest over the last two years has been among the higher skilled and government employees’ and that ‘Continuing provocation and consequent disruption has occurred in Australia’s largest business undertaking, the Post Office.’ He promised that ‘Under a Labor Government the Post Office will be established as a statutory corporation.’\(^{87}\) Similarly, in his ‘It’s Time’ speech Whitlam highlighted the ‘white collar, the salaried and professional employees’ subject to the coalition’s anti-strike laws before committing that ‘Australia’s largest employer – the Post Office – will be severed from the control of the Public Service Board.’\(^{88}\)

**Conclusion**

The Whitlam government gave birth to Telecom in mid-1975 but the new organisation had been conceived eight years earlier. On winning the 1972 election, Labor set about implementing the reformist policy that it had adopted in 1967 and refined while in opposition over the next five years. In focusing on this period, and in particular by examining the origins and development of Labor’s telecommunications policy and contrasting it with the Liberal-Country coalition government’s more incremental approach, this paper has sought to elevate consideration of an important area of policy reform pursued by the Whitlam government that has been largely passed over in historical narratives. Moreover, the formation of Telecom represents the first significant step along a telecommunications reform path that led to Telstra’s privatisation by the Howard government and the continuing debates about Australia’s approach to national broadband infrastructure.

\(^{87}\) Whitlam, 1969, pp. 18-19

\(^{88}\) Whitlam, 1972, pp. 24-25
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