

FAILED STATE

JOHN BIRMINGHAM *on* NEW SOUTH WALES

ONE WORD SEEMS UNAVOIDABLE AS YOU STAND IN THE FOYER OF NEIL PERRY'S \$35 MILLION GAMBLE, ROCKPOOL BAR & GRILL: SOARING. MATT PRESTON, WRITING FOR THE AGE, THOUGHT THE "SOARING ART DECO INTERIOR DOMINATED BY DRAMATIC GREEN MARBLE COLUMNS" TO BE "THE GRANDEST LOOKING DINING ROOM IN AUSTRALIA". His colleague Simon Thomsen from the *Good Food Guide* declared it Sydney's most beautiful dining space, a "dramatically gorgeous" mix of sleek modernism, clever lighting with (there's that word again) soaring marble columns three storeys high. Opened in the depths of the Great Recession, Rockpool was, said Thomsen, a defiant stand against the new austerity. *Gourmet Traveller* was more succinct, at least at first. Yes, the magazine gasped, it's breathtaking. Especially the atrium ... the, ahem, soaring atrium.

You cannot blame them, because Perry's restaurant, located in a grand old insurance building, does soar. To stand in the entry foyer is to find yourself unable to resist craning your neck to gaze up into the vast high spaces, artfully lit by two illuminated working sculptures fashioned from thousands of hand-polished Riedel wineglasses. Thomsen describes the buzz as "the electric hum of the power elite", while *Gourmet Traveller's* Pat Nourse thought it more of a "plutocrat rumble". They are both right. Perry's über steakhouse is a rare meeting point in Sydney these days, a confluence of money and power and raw possibilities you can only find in the great cities of the world. The pity of it is that such dynamism should have contracted to one location, for it was not so long ago that it felt as though the entire city hummed with a similar energy, and beyond it the whole state. That is no longer the case.

The 1990s and the first years of this decade were a brief

golden age for Sydney and New South Wales. Australia's foundation city, and the state which grew from her first colony, crackled with the energy of a runaway property boom, the Olympics and vast sums of global capital that came rushing in to fund the expansion of a rapidly growing financial services industry. Migrants poured into suburbs at the city's fringe, while up and down the coast small seaside villages and regional cities like Newcastle and Wollongong swelled with escapees fleeing that demographic change.

And then, sometime in 2002, everyone suddenly looked around and realised the party was over. Not for Australia, and certainly not for the sunbelt states of Queensland and Western Australia which would enjoy more years of boom-time conditions. But for the oldest, most populous and wealthiest state in the land, the good times were indeed over. It would soar no more.



Rockpool Bar & Grill, Sydney, 2009. © AAP Image





Lobbyist Graham Richardson during the Badgerys Creek parliamentary inquiry, October 2009. © AAP Image

New South Wales officially passed into recession in January this year after two quarters in which its economy shrank by 0.4% in the December quarter and 0.3% in the first three months of 2009. The state's treasurer, Eric Roozendaal, fought a desperate rhetorical rearguard action in Parliament, admitting only to a "technical recession", but the technically unemployed and the technically bankrupt whose numbers were growing every day probably missed that fine gradation of meaning.

"New South Wales has clearly felt the brunt of the global recession," said Roozendaal. "Whether we are in a technical recession or not, we are certainly feeling the impact of the world recession in New South Wales. We are seeing an increase in unemployment, we are seeing payroll tax revenues dropping, we are continuing to see very little movement in land transfer duties and we have seen a massive drop in revenues to the state."

All of the auguries point to a recession, but even if the dictionary definition of two successive quarters of negative growth was not enough for Roozendaal, one telling portent should have been sufficient to signal how serious things were: in November of the previous year the government had revoked the right of MPs to travel free on public transport, and cancelled \$1 million of free first-class overseas trips by ministers. Roozendaal and his premier Nathan Rees worked very hard to sell the crisis measures, which included a freeze on public service hiring, as a response to the accelerating collapse of the world's financial markets and failing economy. The New South Wales economy, however, had been failing for much longer, unable to register more than half a per cent of growth in nine out of 15 quarters since September 2005. Its problems were exacerbated by the collapse of the world economy, not caused by it.

The then federal treasurer, Peter Costello, identified the malady in early March 2006, pointing out in a press conference at Parliament House in Canberra that the premier state had been lagging behind the national growth rate for nearly a year. Costello pointed to an unsustainable housing boom, primarily focused on Sydney, as the culprit.

"State governments made financial decisions based on what would be a passing phase, assuming it would be permanent," he said. New South Wales in particular used the run-up in house prices to fatten its tax take without factoring in the inevitable market correction – a correction which was stronger there because the growth in house prices was much stronger. In the decade to 2004, household wealth in Sydney grew by 50% simply because of inflating house prices, according to Professor Phillip O'Neill from the University of Western Sydney's Urban Research Centre. No increased productivity accounted for this gain. No capital investment, no technological answers, no improvements in human resource management. Millions of people counted themselves wealthier only by virtue of having borrowed more money to exchange mortgages on residential property.

The end of the boom was less a sudden bursting of an asset bubble than a long period of gradual but relentless entropy to the point where, in January of this year, Access Economics identified New South Wales as having the worst state economy in the country; a wooden spoon traditionally presented to Tasmania or South Australia. It wasn't all bad, though. In July the finance boffins predicted the situation would soon stabilise because, as Access director Chris Richardson quipped, "The state simply won't get any worse, it's fallen so far. When you are already in the gutter it is hard to fall much further."

According to Access Economics, the state faced a number of problems, many of them intractable and long-term. While the property boom may have made homeowners feel wealthier because of increased values for their houses, it also meant most of them were carrying much larger mortgages than borrowers elsewhere in the country. As interest rates began to climb, New South Wales consumers put their wallets away and refused to spend, even after the Reserve Bank began slashing rates in response to the GFC. Being home to the majority of Australia's financial services institutions, that crisis struck much harder in Sydney than in the other state capitals. The mining boom in the west and the north of the country had also drawn vast amounts of capital, both financial and human, away from New South Wales. Retailing was anaemic, mining irrelevant and tourism was contracting, along with the manufacturing and the building industries.

A briefing paper on the state's economy prepared by the New South Wales Parliamentary Library Research Service

was even less sanguine than Access. Richardson's analysts had at least attempted to find a silver lining. They looked to the Reserve Bank's dramatic cuts in interest rates as a means to ease the mortgage burden, and perhaps even to draw some migration in from other states, where many Sydney people had fled the city's insane property market. The falling value of the Australian dollar was also noted as a potential boon to the manufacturing sector, while a collapse in commodity prices might have helped rebalance capital flows back towards New South Wales. All of those hopes have since been dashed, of course, as rates have again begun to climb, along with the Aussie dollar and the price being paid internationally for commodities New South Wales doesn't produce in any significant quantities. The parliamentary report, by way of contrast, pointed to a crippling balance of trade in 2007-08, during which period the state imported \$96.8 billion worth of goods and services, while exporting only \$50.7 billion. Of those exports, two major components - tourism and education - were in trouble. Since 1998 the number of nights spent in New South Wales by domestic visitors had dropped 12%, and the lucrative Japanese tourist market had declined steeply after 2007.

Education suffered from an eruption of anti-Australian hostility on the subcontinent as the Indian press went into a feeding frenzy over reports of racist assaults on visiting students, followed by less than enthusiastic responses from Australian authorities. With the Olympic building boom long since dissipated and without the mineral reserves that Queensland and Western Australia were busy shipping off to China, New South Wales' time seemed to have passed. Like the grand, soaring, marble mausoleum in which Neil Perry had opened up Rockpool, the state itself was a monument to faded glories and an era of economic power long since passed.

And yet not all was darkness. Hard-headed business people like Perry and his American multimillionaire backer David Doyle are still willing to wager elephant bucks on the place. And even in the west of the capital city, where the hammer blow of recession has fallen most powerfully, there are bright spots. Cabramatta has been transformed from a grim, forbidden space contested by rival drug gangs into a thriving cosmopolitan suburb of open-air markets, ethnic eateries, street stalls and theatre. While outside of Sydney, regions like the Hunter Valley are arguably benefiting from the atrophy of the old industrial economy as coalmines and ironworks are replaced by university towns, sea-change enclaves and big infrastructure players such as Energy Australia and Hunter Water, which are busy preparing the region for development as the Sydney basin fills to capacity.

The deep structural limits to growth are not issues amenable to policy action in the short or medium term. The

contraction of the state's manufacturing base to a smaller, low value-added sector is not something the New South Wales government can address, even within its relatively generous fixed four-year term. But governments can make things worse, and it is arguable that New South Wales has much more serious and intractable problems in its political economy than it does in its real economy.



It seemed like such a good idea at the time - fixed four-year parliamentary terms. Three-quarters of the New South Wales electorate voted in favour of them in 1995, presumably agreeing with Clover Moore (an independent MP and now Mayor of Sydney), that taking away the governing party's ability to make mischief with the timing of elections was a much-needed reform. Now the New South Wales Labor government remains in power until March 2011 by virtue of that reform. Apart from Premier Nathan Rees, you would probably be hard-pressed to find anybody who thought of that as a good thing, and possibly even Rees has his doubts. (At the time of writing, he is reportedly so suspicious of his cabinet colleagues that he has authorised electronic surveillance of their phone and email systems to keep track of who is talking to whom.)

The New South Wales economy is in drastic need of reform. Its manufacturing base is collapsing. A long run of drought and climate chaos has left much of the state's rural industry in a parlous state. It cannot call on a wealth of mineral resources to fill the Treasury's coffers, while revenue-sharing arrangements negotiated back when the GST was introduced still favour the less populous states. The transport system, utilities sector and a host of big-dollar infrastructure projects are in need of urgent funding and attention. But the government that must attend to them is a government of the living dead. The Labor Party is shambling towards the polls early next year and the wrath of the electorate will be terrible to behold.

An embarrassing sufficiency of examples are available to the writer seeking to explain the moral putrefaction of Labor's soon-to-be former government. Most colourful without a doubt is the murder of Michael McGurk, a businessman so crooked in so many different ways that none of the usual shorthand epithets - colourful Sydney racing identity, disgraced developer, loan shark and standover man - quite does him justice. McGurk was executed with a shot to the head in his driveway at 6.30 pm on the night of 3 September this year. He was murdered in front of his young son with whom he had returned from running a few errands.

Initial reports simply tagged him as a father and a businessman, but, when released, his name began lighting up links in media databases all over the city. McGurk had



Michael McGurk, February 2009. This photograph was taken outside Waverley Court, where he was facing arson and assault charges.
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first come to public attention three years earlier when he attempted to sue the Sultan of Brunei for supposedly backing out on a deal to buy a miniature Koran in a small jewel-encrusted case. He first came to the notice of Australian authorities, however, back in the early 1990s when, using the name Michael Rushford, he had been pursued by federal authorities for overstaying his visa. He skipped the country for New Zealand where he furnished himself with a new passport in the name of McGurk. Back in Sydney he was soon in trouble again, falling out with his employer ECC Lighting after tendering on their behalf for a lucrative project with a five-star hotel. ECC won the contract but McGurk, without telling them, substituted cheap lights for the high-quality product the company usually supplied.

McGurk brushed off the small setback, moving onwards and upwards into much bigger deals in more rarefied company, including that of Ron Medich. A developer and businessman, Medich had the good sense to hire old Labor fixer Graham Richardson to lobby the state government on behalf of himself and his brother Roy. The Medich brothers had bought 344 hectares of land at the edge of the city in 1996. They paid \$3.5 million for the purchase and Richardson

was trying to persuade the state government to rezone the land from rural to commercial use, a change which would have netted Ron and Roy a profit of nearly \$400 million.

McGurk, however, was not part of that deal. He had fallen out with Ron Medich over a \$10 million debt long before but, while Richardson was lobbying planning department officials, McGurk was attempting his own ham-fisted lobbying of Medich via the former senator. McGurk met with Richardson to play him a secret tape he had recorded containing allegations of high-level corruption that, the murdered businessman insisted, could bring down the government and ruin Ron Medich. According to Richardson, McGurk wanted \$8 million from Medich to make it go away.

There is no suggestion that either Richardson or Medich was involved in the slaying of McGurk. He had more than enough enemies who were capable of shooting him in his driveway. Yet, in one of those unfortunate coincidences which have marked the ex-Labor minister's long and occasionally troubled public life, Richardson met with the public servant in charge of the planning department the day before McGurk was killed. Nothing may have come of that meeting if the public servant in question, Sam Haddad, had not later distinguished himself in the inquiry into McGurk's death by allegedly misleading the members of the investigating committee over just whom he had seen in regards to the Medich land, when he had seen them, and just how seriously the department had considered rezoning the land in accordance with the Medichs' wishes.

The parliamentary inquiry into McGurk's death was only one of three investigations; the others were conducted by the New South Wales Police and the Independent Commission Against Corruption, neither of which, being conducted largely out of view, has been nearly as entertaining as the politicians' amateur sleuthing.

"Did you have any involvement in the murder of Michael McGurk?" asked Greens MP Sylvia Hale.

"You have got to be joking. You're a shocker!" snapped Ron Medich during his appearance before the inquisition. "I think this is a bloody disgrace."

The disgrace was that no matter how far-fetched Sylvia Hale's question may have been, no matter how disconnected from the Medich brothers and their high-profile lobbyist McGurk's murder was, his killing dragged into the sunlight yet another example of how wretched and debauched the process of public policy has become in New South Wales. When Sam Haddad's minister, the glamorous Kristina Keneally, fronted the inquiry she was entirely dismissive of any suggestion that the process for determining how land is parcelled up and zoned for development in the state capital should be conducted in public view. Whether her

public servants met with lobbyists or developers and what they discussed was of no concern to her and, by implication, of no concern to the committee, and beyond that, the Parliament and the people.

"That is a legal activity," she told the *Australian Financial Review* a week earlier. "Legal. L-E-G-A-L."

Legal, but not always advisable or proper or even very smart; a distinction that was not beyond Andrew Abbey, a senior planning official who first met Graham Richardson with Michael Comminos, a fellow planner and former political adviser to the government, and whom Kristina Kencally would also know as a Labor Party branch secretary in her electorate. Abbey would go on to meet Richardson three times in his capacity as a lobbyist, all of the meetings taking place in a coffee shop, the first in December 2008.

"No, it's not particularly usual to meet Graham Richardson for a coffee or any other lobbyist or any other developer," he admitted to the inquiry. "In hindsight it was not the best move."

No, perhaps not. If only because of the trouble another council planner found herself in after meeting with the developers and Labor Party figures at a kebab shop in Wollongong. Beth Morgan, a planning officer in Wollongong, was found by the ICAC to have abused her position by granting favours to developers with whom she was involved sexually. The favours took the form of improperly approving applications for excessive developments, providing monetary concessions and leaking council information. The commission eventually made 24 findings of corrupt conduct against 10 people and recommended 139 criminal charges be laid against 11 individuals involved in the Wollongong affair.

Two developers, three senior council officers and three elected councillors were among those against whom adverse findings were made. The case caught the public imagination because much of the corrupt conduct took place in the local café, where all concerned met to divide up the spoils of developing the city and to bask in their own importance for having done so. The corruption involved was so deeply rooted and systemic that the commission took the unusual step of recommending the council be dismissed before it had even issued its final report. Commissioner Mr Jerrold Cripps QC acknowledged in the report that public service managers are often unaware of corruption in other levels of their departments, "but to establish actual corrupt conduct within five levels of a New South Wales public sector organisation, as has occurred with Wollongong City Council, is without precedent".

Having identified that precedent, however, the ICAC quickly moved on to another case of massive fraud and corruption within the state bureaucracy. Operation Monto was



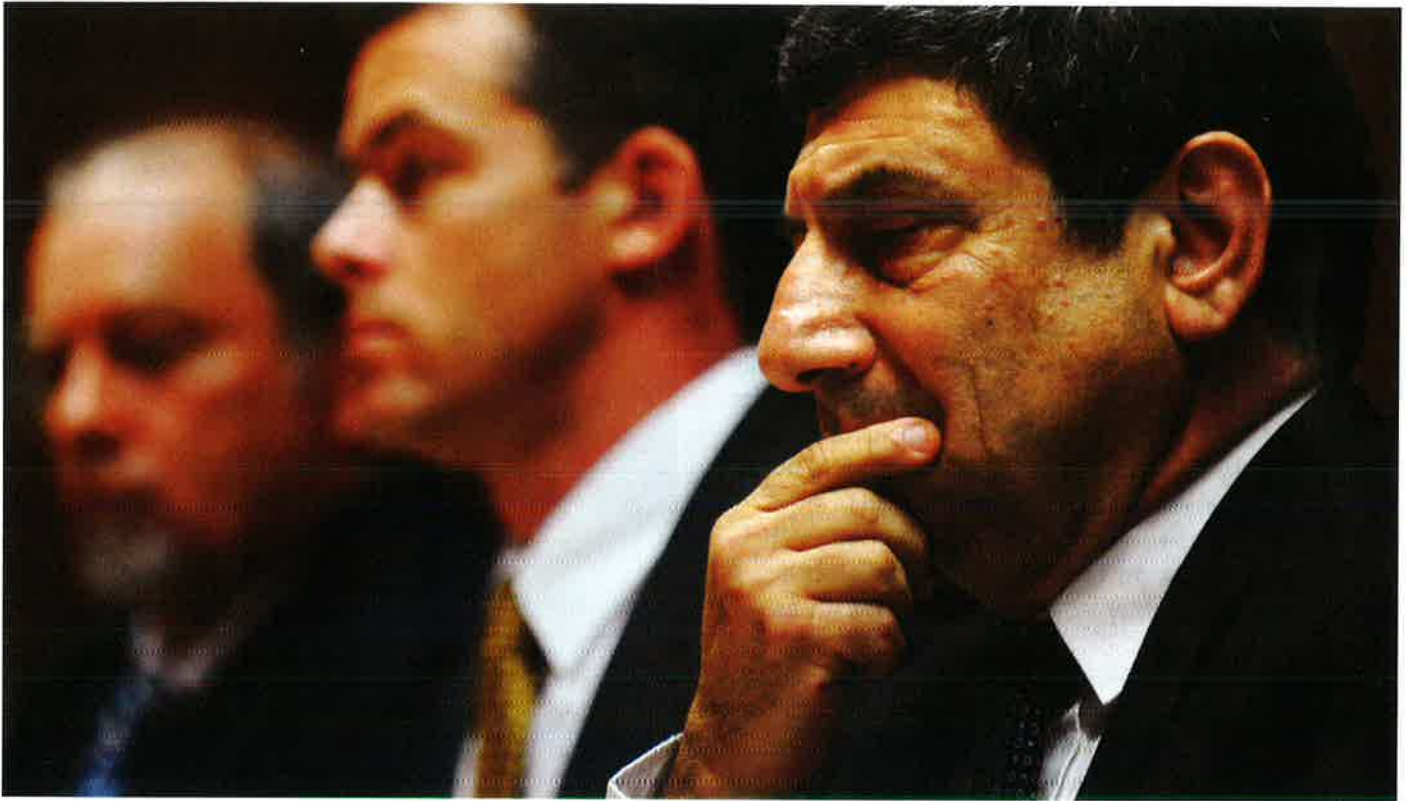
Developer Roy Medich, Sydney, 2009.

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an investigation into Railcorp – the state government's corporate entity that 'owns' the railway network in New South Wales – and it concluded with a total of 96 corrupt conduct findings against 31 people. The investigation was one of the largest in the history of the ICAC; it uncovered almost \$19 million in improperly allocated contracts awarded to companies owned by Railcorp employees and their families and/or friends in return for more than \$2.5 million in payments.

Just as Cripps had been taken aback by the scale of the problem in Wollongong, he was again surprised by this case, describing the extent of the corruption as "extraordinary", and went on to write: "Corrupt employees appeared to be confident that they would not be caught or if they were, not much would happen to them."

Indeed, rather than be punished they may well find themselves looked after. One of the spin-off scandals from the Wollongong inquiry was also investigated by ICAC, when it emerged that Joe Scimone, one of the senior planners against whom a finding of corruption would be made, had been appointed to a \$200,000 job with NSW Maritime when his friend Joe Tripodi was ports minister. Tripodi was cleared of any wrongdoing by the commission, but it was not his first time there: in 2000 he escaped another potential



The head of the NSW planning department, Sam Haddad, during the Badgerys Creek parliamentary inquiry, October 2009.
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scandal after a woman withdrew allegations of sexual harassment; and in 2004 he was cleared of any corrupt involvement in lobbying the assistant planning minister on behalf of a Labor Party associate regarding a shopping centre. One Labor Party in-joke suggested that Tripodi spent so much time at ICAC that he had his own parking spot in the basement.

Tripodi, however, was important to Nathan Rees, until the premier finally decided, in early November, that Tripodi had become too much of a liability. Until that point, Tripodi had kept the troops locked in behind the flailing state leader and probably would have continued doing so until they all marched over a cliff together in the coming election. He, like the lobbyists, the developers and the corrupt officials, is part of the problem. For all of his faults, Graham Richardson knew when it was time to fall on his sword. Nobody in the New South Wales government seems to share that grim, hard-headed self-awareness and, until the political economy of New South Wales is reformed, it is unlikely the real economy will receive the attention it requires.



There is a terrible sense of things being wrong, right down at the core, when you read deeply into all of the available reports of corruption, maladministration and pure criminality in New South Wales - it's as though a trickle-down theory of malignant ethics is at work. This is because the motivations of all those public servants, business people and private citizens who appeared in the recent corruption findings of the ICAC seem modelled on the selfish impulses of those much higher up the food chain. In addition to investigating corrupt land deals in Wollongong, fraud in Railcorp and the murder of Michael McGurk, in the last year and a half the commission has prepared extensive reports on corrupt conduct in issuing driver's licences, the regulation of brothels, the issuing of air-conditioning contracts for public buildings, the sale of surplus properties by Department of Housing staff, the issuing of building licences, the issuing of security licences, blackmail and bribe-seeking by court staff, and even the theft of zoological specimens from the Australian Museum. And yet the Independent Commission Against Corruption is only one of a number of investigative agencies constantly probing the sick body politic of New South Wales.

In his seventh report into corruption at Railcorp, Jerrold Cripps QC noted that team leader George Laidlaw and his staff "grasped at every opportunity to exploit their employment with Railcorp to corruptly maximise the financial benefits they derived from the work". If you remove



The former ports minister Joe Tripodi, depicted at the NSW state government swearing-in ceremony, September 2008.

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the dictionary definition of 'corruption', however, the public servant and his friends were not operating that much differently from any number of property developers, lobbyists, senior politicians and even thuggish standover men like the late Michael McGurk.

At times it seems as if everyone in New South Wales is grasping at every opportunity to exploit whatever small margin they might to benefit themselves. But they are not doing so in line with classical liberal ideas of how markets should work - to enrich the whole via the efforts of self-interested individuals. Instead it is more like watching the emergence of a kleptocracy in post-Soviet Russia.

The background of the McGurk murder and the Railcorp scandal both touch on two fundamental problems in the New South Wales economy: the primacy of real estate and the weakness of the manufacturing sector. In the Railcorp reports we find repeated examples of manufacturers less interested in the technical aspects of the business than in falsifying invoices, insider trading and constructing sophisticated administrative machinery to channel public monies from Treasury to their private accounts, often for work that at times was not just expensive but nonexistent. The rezoning of land by which the Medich brothers and their famous

lobbyist hoped to realise hundreds of millions of dollars' profit on a \$3.5 million investment is notable only for the millions of others hoping to ride a wave on the rising swell of the property market. And, as Kristina Keneally helpfully pointed out, it's all L-E-G-A-L. If you offer a council planning officer \$600 to give you a free pass on your building inspection, that is corruption and you will be charged. But if you pay a lobbyist \$5000 a week for access to ministers and senior public servants whose decisions could mean hundreds of millions of dollars in windfall profits, and if that lobbyist suggests you write a couple of cheques at a fundraiser for say \$10,000 here, \$20,000 there, that's not corruption. You won't be charged. That's just the cost of doing business in New South Wales.

Will the all but inevitable defeat of the ALP in March next year change anything? Liberal Party leader Barry O'Farrell has been around long enough not to make the mistakes of his predecessor, Nick Greiner, who was destroyed by the very corruption commission he set up to investigate the Labor Party's failures of process and ethics during its time in government. Remember, too, that when the current government was elected so long ago, it, like Greiner, came in on an anti-corruption platform. There is a compelling argument that corruption may be embedded in the very DNA of the state, a mutation that emerged out of the legacy of transported criminals - the only human capital available in the first decades of the colony. **M**