

Why the Pink Batts Scheme Failed

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Partisan hacks who blame Kevin Rudd for the pink batts deaths have got it wrong. The deregulators who eroded the insulation industry's safeguards deserve scrutiny, writes Ian McAuley.

The Queensland Coroner has strongly criticised the parties involved in the Homeowner Insulation Scheme – hardly a surprise. The contractors whose negligence led to deaths, the State Government which failed to regulate the industry and the Commonwealth which funded the scheme all bear responsibility for the deaths, fires and lesser shortcomings.

Those who seek to sheet all blame on the Commonwealth, or more particularly on Prime Minister Kevin Rudd, should remember that installers have been prosecuted and that there will probably be more prosecutions. The Coroner's report recommends that three managers from two insulation companies be referred to the Queensland Attorney-General for alleged breaches of the state Electrical Safety Act.

In particular it is hypocritical for the Opposition to try to make partisan gain out of the Commonwealth's administrative failures, exemplified by Liberal Party environment spokesperson Greg Hunt, who doesn't think Rudd is "a fit and proper person to be the Prime Minister of our country" (a test which would disqualify everyone who has ever taken senior public office). The failures which led to these deaths stem from 30-year-old policy directions and administrative decisions of both Labor and Coalition governments – if anything pursued more vigorously by the Coalition.

Installing insulation in roof cavities is not complex and carries a very low risk of fire, electrocution or heat stress, if done properly. Under the scheme it was not. The Commonwealth Auditor's report found that 29 per cent of installations had deficiencies "ranging from minor quality issues to serious safety concerns", and that the program was run in a way that was open to fraud, finding 4000 cases of potential fraud including 67 cases of payments to contractors having been made without any work having been done (pointing out that this was in the context of 1.1 million completed installations).

The main failure was that the scheme's administrators in the Department of the Environment, Water, Heritage and the Arts put too much faith in an industry which was only lightly regulated and was open to fly-by-night operators. With hindsight we can say that they should have known better, but the policy environment in which they were working had set them up to fail.

There are three components of that policy environment – a faith in deregulation, the sacred status of "small business", and a de-skilling of the Commonwealth public service.

The home insulation industry cries out for safety regulation, not only for the sake of workers and homeowners, but also to protect the reputation of ethical firms in the industry. It is easy for fly-by-night operators to enter the industry – a light truck and a ladder are all the capital investment required. And it is very hard for most consumers to judge the quality or safety of the work done. These are inherent market failures which require regulation, but regulation has become unfashionable. One beneficial outcome of the scheme is that it has led to a deal of scrutiny of the home insulation industry and most states have significantly improved their regulations.

Alongside the deregulation obsession has been a notion that small business is intrinsically virtuous. Politicians speak of small business with reverence, as if, in contrast to evil multinationals and supposedly unproductive government bureaucracies, small business is the repository of good business practice. This naive view conveniently overlooks the heterogeneity of the sector.

It's easy to think about your trusted GP, the tradesperson with whom you've been dealing with years, high-tech startups and fifth generation farmers. But small business also has its share of unethical, inexperienced and sloppy operators – those ready to take safety short cuts, those who see customers as suckers, and those who see a pool of government money as an opportunity for plunder rather than as a community benefit.

In fact, small businesses present more such opportunities than larger businesses because the high turnover of companies and individuals in small business makes it hard for organisations such as Choice and government consumer protection agencies to keep track of shonky operators.

Then there is the deskilling of the Commonwealth public service. Administering this scheme were Canberra-based senior public servants who would have been competent in the paperwork of contract law, but who were unaware of (or had forgotten) simple physical facts which any high school student should know. The heat from a 100 watt light bulb wrapped in insulation needs to go somewhere. A 12 volt downlight carries 20 times the current of an equivalent 240 volt light, increasing the fire risk in electrical connections. Old houses have frayed insulation on their wiring, and aluminium sarking is a very good electrical conductor. Not only did they lack this basic technical knowledge, but also they seemed to be remote from industry.

Had this program been run in the 1970s it would have been administered by competent engineers from the now-disbanded Commonwealth Department of Housing and Construction – people with good technical knowledge who knew the industries with which they were dealing. They would almost certainly have been operating out of state offices rather than from Canberra, and would have been awake to the risks of fraudulent and dangerous work. They would have known the poor general record of the home insulation industry, and would have known which firms to deal with. And they would have known that suddenly opening up opportunities for new businesses in an industry with low barriers to entry – in insulation or in solar panels – can be severely damaging to existing firms who are undercut by those who compromise on safety and quality and who, as a consequence, damage the whole industry's reputation.

But, as pointed out by Tim Roxburgh of the Centre for Policy Development, the fad of privatisation and contracting out resulted in the Commonwealth losing such expertise. The public servant who has risen through the ranks over the last 30 years is more likely to be a generalist, skilled in providing political support to ministers, but generally lacking technical and on-the-ground practical knowledge.

In all, there is nothing clear-cut about apportioning blame. When someone drives recklessly on a public road and injures himself and others we don't necessarily apportion any blame to the government which built the road – nor should we. In fact, governments can cause more pain and misery through neglecting to act rather than in making mistakes when they do act. For example on the badly underfunded Bruce Highway north of Brisbane there are 40 deaths and 500 casualties a year. Had the Federal Government not implemented stimulus programs such as the school building and insulation schemes when the financial crisis hit, then maybe the accusation that Rudd was not a fit and proper person to be Prime Minister would have been justified.

Those on the right extol the virtue of "personal responsibility" (see, for example, the Liberal Party platform) but they miss no opportunity to criticise whatever government is at hand when something goes wrong. In the case of home insulation no-one seemed to care about the industry's poor safety record until the Commonwealth became involved, but there is strong evidence, based on CSIRO research, that the 1.1 million installations carried out under the Commonwealth's program had much better safety performance than the industry had before the scheme was implemented (Somehow the Murdoch media missed this analysis).

Rudd, in apologising for his Government's failures, has acted honourably, but we should see these failures in a more general context. In any tragedy there are widening circles of responsibility. In the inner circle are those with proximate and immediate responsibility who are facing the wrath of the justice system, and that was properly the focus of the Coroner's report. In the next circle are governments who unwittingly allow opportunities for malfeasance.

There is an even wider circle which encompasses our beliefs about the role of government. We have uncritically embraced simplistic beliefs about deregulation, privatisation and the intrinsic virtue of small business, and have been so disparaging of government that we allowed our government agencies to lose those capacities which are vital to good public service. We must all shoulder some of the responsibility for these failures.