BOMA ~~13~~ 12 WHY PRIVATISE John Hyde

Governments, of all political persuasions, all round the world, are selling public assets. The relevant governments' motivation often seems to be no more than to raise the cash it is no longer game to raise by taxing and borrowing to pay for current expenditure it is not game to cut.

Since monopolies usually command premium prices, when the big public monopolies (Telecom, electricity and gas supplies, airlines, etc) are sold to become big private monopolies more cash is raised than if the government allowed competition; thus the government avoids facing facts a little longer. It also avoids union and management recalcitrance since they know they have far more to fear from competition than private ownership. The Victorian Government's attempt to raise cash by selling small equities without voting rights in State Government monopolies is a recent extreme example of this tendency. Sod the public.

The Thatcher government is now criticised, not for privatising, but for not sufficiently breaking up the giant British Telecom monopoly. The wheel turns more quickly than we sometimes expect! This latest criticism of Thatcher, which contradicts earlier criticisms from the same mouths is, unlike the earlier criticism, fair. It would be wrong, however, to conclude that nothing has been gained from the sale of British Telecom.

Competition is never perfect and neither is monopoly; even Australian Telecom faces competition from pigeons, the post and illegal radio links. Much of British Telecom's activity, particularly its service to business, was made to face more effective competition than pigeon. Even where BT's monopoly remains almost as it was, where it serves the household sector, and the consumer suffers much the same disadvantage he always suffered, at least the taxpayer has been relieved of the obligation to subsidise further losses. There is another more important difference which is often missed: politicians can no longer so easily force the organisation to provide uneconomic 'community services' against the rational wishes of management.

No monopoly, public or private, regulated or free, is ever 'efficient' in the economists' sense of supplying the services most desired at the minimum price. The British Telecom saga has demonstrated that regulation is no substitute for the threat posed by someone who might do the job better.

In purely economic theory a competitive public enterprise such as QANTAS would use its resources efficiently but in practice it doesn't because politicians do not leave the management alone---flying to Johannesberg makes more commercial sense than Harare, and cannot allow it to default on debts or be taken over. It is not the nature of democratic politics to allow an esoteric goal such as efficient resource allocation to get in the way of a political consideration.

Of course the cost of political interference is more extreme where there is little competition. In the case of Australian Telecom political considerations stop management reducing manning that is surplus to need or discontinuing service to sparsely populated areas. (Management and workers tolerate the theft of scrap copper, one must presume, because they expect to be able to pass on the cost.)

When I was a politician by far the biggest number of requests from constituents for my intervention on their behalf concerned immigration, but next in order of volume was Telecom. Politicians pretend they are spokesmen for the disadvantaged but most `constituent work' concerns queue jumping. The politicians tell Telecom it has a `social obligation' to provide service (to people with political clout) almost irrespective of cost. In fact cost is rarely mentioned; expressions like `everyone is entitled to' and `Whoopwhoop must have a service' are employed. The cost may exceed the revenue by tens of thousands of dollars per subscriber. Losses are disguised by cross subsidising from city households and business houses using the trunk system. The business houses pass the cost onto households---they must. Many of the transfers thus effected are highly regressive; but what is new! Every Whoopwhoop has a local member.

Forced to provide subsidised services Telecom has no option but to ration them. An unstable queue is established in which places are changed by political pull. It is an inequitable, wasteful way to allocate telephones but when `social obligation' takes the place of `profit' how else do we decide who is to get the service, who not and who pays how much? What criterion, if not political influence, should determine `need' and relate that to cost.

It is because privatisation enables public enterprises to escape from the economic perversity of politics that, even when it is badly done, privatisation will improve average living standards.

In the days when nationalisation, not privatisation, was the issue, George and Priscilla Polanyi published several studies comparing the efficiency of public and private enterprise. They remain relevant today.

Their 1974 comparison of private and public sector activity in Britain might have been taken by the Brits as fair warning of future nightmares; but it was not. The financial performance of Britain's nationalised industries had even then been consistently well below that of the British private sector.

* Since 1955 the net return on assets had been in the range 2% to 6% compared with 11% to 19% with privately owned companies.
* The six industries nationalised since the war (coal, electricity, gas, railways and the two international airlines BEA and BOAC) had accumulated losses of £1,169 million. In Australia, of these only coal mining is not nationalised.
* Even by 1974, since 1956, nationalised industries had received subsidies of nearly £6500 million.
* Over twenty years the price rises of the goods and services produced by the nationalised industries had been about the same as for all goods and services. The poor bottom line was not because the public had enjoyed cheap services even though political pressure had kept many prices below cost.

Productivity measures are no more flattering to the government sector:

* For every £100 of capital cost (measured as depreciation plus 10% interest on assets) and labour cost the nationalised industries produced £67 of goods and services in 1971, while the private manufacturing industries produced £99.
* Between 1948 and 1968 private enterprise increased its production per unit of new capital invested at over three times the rate achieved by the nationalised industries.

The nationalised industries were required to protect employment by not closing inefficient coal pits etc but over the long haul the policy probably did not add to employment within it. Over the twenty years to 1968 the nationalised industries reduced employment by 33% while the private sector increased employment by 16%.

Only when they are sold do public enterprises pay taxes in meaningful amounts. From 1962 to 1972 nationalised industries paid £67 million in taxes, while privately owned companies paid £13,729. At the same time government grants accounted for 7% of privately owned companies' receipts but 28% for the nationalised industries. (Seven percent of revenue is not small and surely was a prime cause of Britain's failure to compete successfully in the world markets.)

The Polanyi comparison yields stark differences in the relative efficiency of the public and private sectors by several measures. Not one aspect of public sector performance is better than private. In 1974 Britain was not quite ready to learn; we have not learned yet.