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ON THE DRY SIDE 402

Privatisation

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Few East Germans, Poles, Czechs or Hungarians would today defend the public ownership of trading enterprises and even fewer would want a political party to 'own' their elected MPs. In North-Eastern Europe socialism is dead, if not yet satisfactorily buried.

Government by the party is a procedure that is being abandoned in Eastern Europe and Latin America. Post-1989, a political party that allows a conference of party members to decide how much privatisation the elected Government may introduce has become an anachronism. But in Australia we still retain the forms and some of the substance of socialism. To outsiders we may be historically instructive, quaint or even amusing---a bit like changing the guard at Buckingham Palace and dressing the Speaker in a wig. But, for those who live here, it is all a bit trying. Unlike the ceremony of the changing of the guard, the anti-democratic ceremonies of the Australian Labor Party still affect the course of government.

Elected Labor MPs, although fairly good at stage-managing Labor ceremonies, nevertheless, sometimes become bound by decisions of the party's conference and executive. To the extent that this is allowed to be the case, Australia is governed by 'the Labor Party'---a party that is much more in thrall to the shibboleths of socialism than the less-dogmatic cabinet and caucus. By pragmatically pursuing our interests and keeping an eye on the next election, the Labor cabinet has, by Australian standards, for the most part governed reasonably well.

The cabinet is, however, now stuck with an anti-democratic party-conference about privatisation. So are we. Since ALP conferences are not all busbies and breast-plates, we who are not ALP party members have an interest in what the conference decides. What, then, ought it decide?

The privatisation debate is poorly focused. The focus should be economic efficiency---that is, the consumer benefits achieved for each unit of resources tied up and thus denied to the production of alternative consumer benefits. 'Benefits' in this context means those benefits consumers want, rather than the benefits that employees and union officials want. (Perhaps the difference between capitalism and socialism of which ex-socialists are most aware is that under capitalism ordinary people choose, whereas under socialism the party elite, the nomenklatura, choose.) If the privatisation of a government entity will result in greater efficiency, then it should be privatised.

Retiring public debt, on the other hand, is not necessarily a reason to sell public assets. Whether or not the government should sell a public sector enterprise depends upon whether the interest payable on the sale price is greater or less than the revenue the Treasury receives from the enterprise. If the assets can be used more efficiently in the private sector, then private owners will pay more for them than they are worth to the Government on behalf of taxpayers. If an enterprise, such as a State Rail Authority, is losing money then the decision is obvious---sell. Efficiency remains the underlying goal: if efficiency gains are not won from privatisation, then private dividend and interest receipts will be less than the interest the government saves by banking the sale price.

'Community service obligations' are often cited as a reason for public ownership. They are a red herring. If a particular subsidised service is the best way to subsidise deserving people, then the service should be subsidised from general revenues. What is more, the subsidy should apply irrespective of whether the service is provided by the public or private sector. However, I can think of no reason not to pay the subsidy directly to the deserving people themselves, thereby allowing them to choose the services they prefer.

Natural monopolies are also said to provide a case for public ownership. (Because it pays to have a bigger pipe rather than competing sewerage services, sewerage mains, for instance, tend to be natural monopolies.) Where competition is impractical, regulation can improve economic efficiency---that much is true. But identical regulations are needed, whether the monopoly is in public or in private hands.

Although public ownership inhibits competition, competition not proprietorship is the key to efficiency. As New Zealand and New South Wales experiences testify, enormous efficiency gains can be made within the public sector by providing public-sector trading organisations with proper bases for accounting and rigorous managements, and by allowing private firms and foreign goods to compete with them. For instance, the New Zealand CoalCorp---still publicly-owned---has halved its staff numbers, increased production and turned a \$NZ23 million loss into a small annual profit, without raising prices.

The Australian debate shows that the managements, employees and unions of some public-sector trading organisations---Telecom, for instance---fear competition even more than they fear privatisation. Nevertheless, fully-fledged competition is impossible until boards of management fear takeovers and there is competition for investable funds. What is more, while the businesses remain in public hands, future politicians will be tempted to undo the good work of current governments. The New Zealand National Party (avowedly conservative but in fact rather socialist) is promising to undo some of the 'corporatisation' undertaken by the New Zealand Labour Party (avowedly socialist but, until the sacking of Roger Douglas, rather liberal).

If consumers are to continue to get the best likely deal, privatisation of most state enterprises is essential. However, among the organisations that will be discussed at the coming ALP conference, it is not the privatisation of The Commonwealth Bank and QANTAS, which already face competition in the markets into which they sell, but that of Telecom, that will yield ordinary folk the most benefit.

Sadly, unelected devotees of a defunct philosophy, who despite their rhetoric do not give a damn about the underdog, will substantially prevent an elected cabinet from privatising Telecom on behalf of rank-and-file Australians. How like, say, East Germany of only two years ago.

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