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## ON THE DRY SIDE 404

### What do we want from Privatisation?

*John Hyde*

The principal reason that Governments privatise is to let most consumers and taxpayers have access to the efficiencies created by competition. And the principal reason that they don't is that they fear the wrath of employees and cross-subsidised consumers. Those who gain from privatisation are more numerous, but those who lose are more concentrated and better organised. There is, however, a further political consideration---namely, the politician's wish not to be put in 'no-win' situations or blamed for things beyond her/his control.

For instance, Western Australian government politicians must fervently wish that they were not responsible for the State Government Insurance Commission (SGIC) and its strange losses. From the citizens' standpoint, whatever we think of individual politicians, it does not suit us to have the political system discredited. More of the SGIC shortly.

Australia did not suffer the ideological enthusiasms that caused other countries to nationalise coal mines, steel works, farms and grocery shops. Australia's socialised industry owes its existence almost entirely to interests rather than ideology---a fact that may explain why we are doing less than most Western countries to privatise.

Most of our many public sector enterprises were started to satisfy demands for things the market had rejected. Aware that political costs attend only visible failures, our politicians often protected state-owned trading enterprises from competition. By so doing, politicians made rods for their own backs. They cannot now deny that railways, telephones etc can be employed preferentially to serve vested interests---the only question is whether they should.

Telecom is an extreme case in point. It is a public sector monopoly offering a high-cost, low-quality service. It is

overmanned and hugely inefficient when compared with privately-owned telecommunications services in the United States. It is effectively answerable to its employees rather than to its customers. It cross-subsidises some groups---farmers, for instance---at the expense of people who are much less wealthy.

Most Australians can, therefore, expect a thoroughly deregulating and privatising Telecom to offer a much better service. Even Mr Beazley's pathetically wimpish Megacom proposal will be an improvement. The Minister can justly claim that the potential gains from allowing competitors to challenge Telecom in its product markets are considerably greater than those from allowing investors to compete for the right to sack its management and pocket its earnings.

Although there is no good reason why we should not have both groups of benefits, the first criticism Mr Beazley must answer is that he has done too little to allow genuine competitors into the market. Megacom will dominate the market for years to come.

In view of the Trade Practices Commission's recent ruling that West Australian Newspapers may not take over the Daily News, Telecom's takeover of OTC is decidedly ironic. If the 'market concentration' parts of the Trade Practices Act are justified at all, then the Commission was justified in blocking the Daily News takeover. But what is different about Telecom and OTC?

The case for privatising Telecom is clear, but what of QANTAS, the Commonwealth Bank, and the various State Government insurance offices---the efficient end of public sector trading enterprises? These organisations already face competition in their product markets. If privatised, they will have to compete in the capital markets rather than the cabinet room, and must face the prospect that they can go bust or be taken over. These opportunities and disciplines are not trivial. Moreover, there is the advantage of getting responsibility for these organisations off the politicians' backs.

Returning to the case of the State Government Insurance Commission: SGIC made some quite extraordinary investments in companies which were at the time favoured by the State Cabinet. These investments have resulted in very big losses. According to sources associated with the Government, only the Minister had the legal authority to instruct the SGIC and he didn't. The Chairman of the SGIC, on the other hand, claims that he was not (solely) responsible for the bad decisions.

The SGIC is now claiming that, because the organisation's reserves can (just) cover the losses, neither taxpayer nor insurers have lost---a proposition that is somewhat less than honest. Since the SGIC sells in a competitive market, future policy holders are protected by their ability to buy elsewhere. Therefore, the owner, i.e. the taxpayer, will lose. Either the dividend flow to the government will be less than it could have been or, if SGIC is privatised, the sale price will be less than it could have been.

I admit that it is possible that the Chairman of SGIC, perhaps after a touch of the sun, decided to buy a lot of over-priced CBD real estate and Bell shares, that just happened to be owned by a couple of the Government's favourite citizens. He has not, however, resigned or been sacked.

Another possible explanation of what happened is that someone other than the responsible Minister, but who might be seen to speak for the Government, put the suggestion to him. If the former explanation is correct, then the Government is now paying a high price for the popular belief that the latter explanation is more likely.

Governments get into commerce to buy votes, but once in, they meet both pressure and temptation. Their constituents expect them to control services and prices. When a Federal MP, I was sometimes pressured over the siting of new telephone exchanges and blamed for the outcome. I lobbied Telecom, but I believe its officers would have resisted the use of Telecom resources to cover up government errors or to subsidise a single wealthy individual. They did, however, under political pressure, provide some costly services to some extraordinary places.

Only when the market replaces politics can business expect to be efficient, and only when things like telephone exchanges are no longer political concerns can Ministers properly attend to their real duties. However, for so long as the Government is in business, MPs will face democratic pressures to override the market on behalf of vested interests.

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