ON THE DRY SIDE   PRIVATISING   John Hyde

Published
22-2-85

Privatision, or selling off the public sector, is becoming fashionable among politicians for two reasons. The first and respectable reason is that it is becoming increasingly obvious that the public part of the mixed economy is not pulling its weight. High charges and poor services which reduce living standards have long caused public resentment and now the performance of our public sector is worrying egalitarians and people concerned for the economic long run. Defence strategists worry how we will buy expensive hardware, and social democrats, wanting more for the under- privileged, have come to realise that efficient services yield more wealth and less social tension. People on both sides of the political fence have adopted privatisation as not an ideological goal but as a way to other goals like poverty alleviation.

The other, not so respectable, reason why governments sell off public enterprises is to raise money that they are neither willing to tax nor borrow. They often achieve only some of the possible efficiency gains as by-products of subsidising their budgets.

Public enterprise is seldom competitive but it is not public ownership per se but lack of competition which is the prime cause of waste. While substituting competition for command will always improve efficiency, selling public assets does not necessarily enhance competition in the important product markets. A monopoly sold with statutory protection remains a monopoly.

Monopoly is a term describing not oneness but absence of competition. One firm in a market without a significant barrier, other than its own efficiency, to a second is not a monopolist; ten firms sheltered by a government bunker from the attacks of an eleventh have monopoly power. The knowledge that a publicly owned enterprise will not be allowed to default, what ever its pricing policy, is itself a significant barrier to competition. Not content with that advantage, most are further protected from competition by law. The prime purpose of privatisation should be to reduce the government's contribution, monopolisation, by putting as many economic decisions as possible into free market contexts.

Partial sale of publically owned assets can actually bring a greater portion of the total capital stock under public control. For instance, the Burke Government's W.A. Development Corporation and the Fraser Government's proposal to seek a less than controlling private investment in Aussat bring private investment into the command economy.

Governments selling assets like British Telecom and British Airways cannot resist the temptation to preserve immunity from competition to increase the sale price. Selling BA and British Telecom are not pointless exercises; capital raising will henceforth be competitive and the managers and staff can no longer expect the taxpayer to underwrite inefficiency, but economic theory would expect telephone subscribers and passengers to be a little better placed. (In spite of the lack of theoretical support in the face of privatisation and actual staff cuts BA's service does seem to have improved.) While to save the taxpayer QANTAS should be sold, even more importantly its routes should be opened up to competition to lift a much greater burden from the traveller.

Many facets of government could be handed over to markets. Each transfer would make the economy a little more efficient. The London Adam Smith Institute has identified eighteen ways of skinning this cat. (Two for each life.)

1. Sell it.
2. Sell part of it: as Thatcher has sold off British Rail's hotels.
3. Partly sell the whole: as Thatcher has sold just over 50% of British Telecom.
4. Sell it to the workforce: In Britain this was how the National Freight Corporation was introduced to the market.
5. Give all or part of small assets to individual members of the public: In Britain where council housing is an even greater barrier to workforce mobility than here, 60% of the value of council housing is given to 20 year residents who will buy the 40%.
6. Give it to the workforce: This has not been done but has obvious possibilities where a union wishes to defy attempts to close down loss making enterprises like Britain's worst coal pits.

So far we have considered privatising the capital; demand and supply are as important.
7. Charge for the service - privatise the demand: as Telecom and Australia Post do now and education services easily could.
8. Use contractors - privatise the supply: Construction, refuse collection and road sweeping are common examples of private supply to the public sector. A not so common but interesting example is American privately owned and run jails.
9. Dilute an existing service with some private provision: a common example is schooling.

Existing vested interests often erect almost insurmountable political barriers to privatisation. The practical privatiser must take them into account.

10. Buy out the existing beneficiaries of the command economy: Britain offered the beneficiaries of rent control the alternative advantages of the Short-hold Lease. It is the means by which those with superannuation schemes which are unsustainable in the long run will be induced to accept changes.

11. Encourage counter interest groups: examples are taxpayer, private education and privately insured lobbies.

12. Offer self regulation as an alternative to government control: Press Councils, professional associations etc. preserve the monopoly but probably reduce the pettifogging.

13. Encourage alternative institutions to the State monopolies: Australia needs a private university helped by tax deductions.

14. Run a small scale trial: a free port, an enterprise zone or deregulation of employment rules for the handicapped or youth.

15. Repeal the public sector's monopoly right: Mail delivery, Wheat board, etc etc.

16. Use the tax system to encourage people to leave the public sector: Private expenditure on health, education, transport, or anywhere there is a substantial loss making public alternative, should be tax deductible.

17. Offer vouchers in lieu of free goods and services giving the user freedom of choice.

18. Finally where the government is determined on monopoly, a market in monopoly rights can be substituted for patronage by auctioning the franchise.

Effective privatisation is not simply a matter of selling assets, although that is important, but rather is a process of substituting private market disciplines for command decisions.

Some beneficiaries of the command economy are strong and reforming governments are relatively weak but a many headed hydra which can not be slain at a blow might[
die of\ a thousand cuts.