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ON THE DRY SIDE SNOWY MOUNTAINS ENGINEERING CORPORATION John Hyde

In 1970 the then Liberal Government formed the Snowy Mountains Engineering Corporation (SMEC) to keep together the skills which had built the mighty Snowy Mountains Scheme. It seemed like a good idea at the time but today SMEC has its hand in the taxpayer's pocket for $10 million dollars and it may need more. SMEC has become yet another example of what is wrong with public ownership of trading enterprises.

So far as I know, no one is questioning the technical expertise of its engineering. The point is that the finest skills, given public sector incentives, get wasted. Although SMEC is big, although it has won contracts all over Australia and over much of East and South Asia as well, and although it has traded profitably for most of the fourteen years since it was formed, Australians would now be richer if those skills had not been given that protection from market discipline which always accompanies public ownership. The Liberals in 1970 should have forseen the consequences of giving the engineers and administrators the 'advantages' of working for the Government. SMEC employees have won conditions of employment more in keeping with the public service than with a firm of contract engineers. When the demand for engineering services reached a flat spct SMEC found itself overstaffed and faced with heavy redundancy costs. Now SMEC is a job protection scheme catering for an unusual proportion of highly paid professionals.

SMEC employees have organised what seems to be an unusually juicy superannuation scheme. The liabilities of this have not been brought to account, so we don't know precisely what effect it has on SMEC's nominal solvency. (In practical terms the Commission remains solvent until the taxes run dry.) Three years ago someone was sufficiently worried about the superannuation to initiate an enquiry, but that enquiry is not completed yet.

High labour costs are preventing the Commission from competing in overseas markets. Its employees have been able to make expensive demands in the knowledge that receivers will not close its doors.

The Corporation lost $5.5 million in 83-84 and further substantial losses are anticipated for the year just ended. The management practices of this public authority would never pass muster in the private sector. Auditors have qualified the accounts for three years in a row, on the same grounds. The grounds are failure to resolve the terms of employment of overseas employees, and of course superannuation liabilities.

It is not as though SMEC's customers always and necessarily get engineering services at the best possible prices. Do the Department of Housing and Construction, the department responsible for SMEC; and the Snowy Mountains Authority, which fathered SMEC; always insist on competitive prices? Would the Australian Development Assistance Agency, one of SMEC's bigger customers, always get competitive prices? According to Mr. Hayden, the Development Agency has not been provided with either the professional resources or an appropriate organisation structure so I doubt whether anyone knows whether the prices are the best possible. For many jobs SMEC is the only tenderer; other jobs are given to the Corporation on the basis of intial quotes but at the implementation phase there seems to be no binding tender.

If, as is almost certainly the case, SMEC faces stiffer competition in foreign markets than it does when tendering for work in Australia or to the Australian Development Assistance Agency, then it has an incentive to maintain employment by cross subsidising loss-making foreign projects from over-priced domestic projects. If this has in fact happened, the taxpayers' subsidy has exceeded the visible ten million dollars. In all these uncompetitive circumstances, it seems remarkable that SMEC can lose money, but the organisation's advantages have been captured by its employees.

Since in SMEC's case bankruptcy is unthinkable and since it has had tame-cat public sector customers, SMEC has always had the ability to predatory price, cross subsidising loss-making tenders to drive private sector competition from the field. This would be both unfair and wasteful.

In 1970 few would have foreseen the Corporation becoming a costly make-work scheme, and the Minister responsible for it would have denied the possibility. He would also have denied that predatory pricing could be a problem. But neither problem can be avoided when suppliers, employees and customers all know that a trading organisation will not be allowed to go broke. Bankruptcy is the market place's ultimate sanction against waste, and where there is no fear of bankruptcy market failure is inevitable. The Government cannot be seen to default so no bankers or other creditors even breathed hotly on SMEC. Its ultimate poor performance may as well have been written into its charter.

The essential condition for economic efficiency is a competitive market. The right to buy and sell capital is important and so is the right not to subsidise some investments with compulsory taxes. As SMEC shows us, private ownership is a NECESSARY condition of a competitive market. But it is not a SUFFICIENT condition.

Both here and in Thatcher's United Kingdom proponents of denationalisation often talk and act as though all they must do to achieve economic efficiency is to privatise ownership; by which they mean allow the right of individuals and VOLUNTARY groups to buy, sell and earn income from assets.

It is just as important to privatise all of the other rights which bear on the uses to which capital, including intellectual capital, might be put. It is probably even more important that the rights of alternative suppliers and of buyers are preserved. The rights of potential new entrants to a market are particularly important. To sell SMEC with a guaranty that it will continue to be subsidised would be nearly useless; to sell it with special access to its big departmental customers would be only one step - and possibly not the most important step - in the right direction. To sell TAA, Telecom, Australia Post, the Australian National Line and other utilities without also stripping them of their monopolies would be to deny the public most of the potential benefit of denationalisation. If efficiency is the goal, all of the relevant rights must be made freely negotiable. Deregulation is at least as important as privatising ownership.

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