28/1/88

ON THE DRY SIDE 164 PRIVATISATION John Hyde

To escape the bind of mounting debt and poor investment Australians must accept a painful drop in living standards or achieve a sharp rise in productivity. Properly handled privatisation will improve productivity.

Liberal politicians in Western Australia, Victoria and South Australia adopted it enthusiastically, only to drop it as soon as they met the inevitable resistance of the public sector unions and the usual election time misrepresentation of their position. In fairness, they could have experienced an intellectual conversion, but the circumstances of the about-face beg the question: Have they got the spunk to govern?

They brought Dr. Madsen Pirie out from London to tell them how to privatise. That was sensible, but they relied too heavily on his amusing but glib accounts of British experience. This led them to make claims, which he would not have made, they could not sustain. Mr. Olsen promised that nobody, not even featherbedded employees in overstaffed organisations would suffer. That is nonsense; the central purpose of privatisation is increased productivity.

Liberals can't abandon privatisation; it is an essentially liberal program which, whether they like it or not, will be forced upon them. These days even socialists privatise. The world is privatising and state ownership is in retreat.

What is more South Australians did not vote against privatisation. It is unpopular with government employees but it is not infected with a vote losing pox. The 'Advertiser' poll showed that South Australians were indifferent to the issue. Mt Gambier, a seat in which Labor campaigned against privatising a local tree nursery and which included many state houses, which the Libs promised to sell to their occupiers, was one of the few places the Liberal vote improved.

Polls show 48% are in favour of privatising Telecom, but the question was too simple; there is more to privatising than putting, say, Telecom on the market. A privatising ministry must decide when it will sell what percentage of the equity, of what part of it, with what monopoly rights to whom. For instance, a government could, in two floats, sell 100% of the shares of a company that owns Telecom's Telephone installation facilities with a free issue of rights to employees and the new company could be given a year before it competed with newcomers in an open market. This policy would almost certainly improve productivity; it would be politically feasible. It would be politically feasible but would do little for productivity to float a 20% equity in the Telecom we know.

The Thatcher Government's privatisation is criticised for maximising selling prices instead of competition. It has sold, or is in the process of selling, British Telecom, British Airports and British Airways as monopolies embalmed in law. In every respect bar one - the taxpayers' guarantee that the company will not default is removed - the monopolists can still ask too much and offer too little.

The truth is that, unwilling to cut expenditure on health, education, welfare and defence, or raise taxes, Thatcher has maximised revenue from, as Lord Stockton (nee Harold MacMillan) put it, selling off the Canalettos. You always knew 'She' was a wet!

Dr. Peter Forsyth, ("Airlines and Airports: Privatisation, Competition and Regulation", Fiscal Studies, Feb. 1984.) writes, "Once it has received a price, conditional on regulation, the government will find it difficult to alter or remove that regulation."

From London to Pekin governments are selling off state assets to raise money, stimulate efficiency or satisfy an ideological urge. 'Clear Thinking' (published by AIPP, 25 Mount Street, Perth) lists some of these.

In the United Kingdom, British Gas is to be sold for up to $9.7 billion; half British Telecom, half Britoil and several smaller entities are sold. There are plans to sell British Aerospace, the rest of Britoil, British Shipbuilders, British Airways, the Royal Ordinance Factory, Short Bros., the rest of Telecom, the government's 31.7% of British Petroleum, the spare parts division of what was fomerly British Leyland and the British Airports Authority.

French state owned banks are tapping the private market by the issue of non-voting preferred stock in nationalised companies. Conservative opposition parties are calling for more complete denationalisation.

In Japan the deficit ridden state railway is to be sold and so is one third of Nippon Telegraph and Telephone.

West Germany is privatising $600 to $900 million of government holdings but has for the moment postponed a plan to reduce its stake in Lufthansa.

Canada: A regional airline, a trucking and shipping corporation, and a uranium producer and processor are under the hammer in Ottawa. The province of Quebec is selling 10% of Hydro Quebec for $400 million.

Mexico, which has more financial trouble than most, is to close, liquidate or transfer to the private sector, 236 state owned enterprises.

The United States, South Korea, Bangladesh, Pakistan, Sri Lanka, Turkey, Saudi Arabia, Malaysia, Chile, Brazil, Jamaica, Peru, Argentina and Uganda don't have much else in common but they are all privatising. It is unlikely that Australia will escape the trend.

Most privatisers claim greater efficiency. Richard Pryke, once an advocate of public ownership concludes a recent paper comparing similar public and privately owned enterprises with, "...the record of the evidence I have been investigating does suggest that public ownership leads to performance which is relatively poor by private enterprise standards."

Popular demand for lower taxes and better services will cause Australian politicians to privatise. How much the public gain will depend on how it is done.