

ON THE DRY SIDE THE EVATT FOUNDATION CONFERENCE John Hyde

Privatisation, far from being an ideological kick, is often a last ditch effort by governments to make the public sector leviathans conserve resources, adjust to change and attend to customers. There is a chill in the economic wind. Most governments can do nothing consequential to prevent a world-wide recession but they can put their own economies in better shape to cope with one. They realise that excessive communications, public utility and transport costs will prevent their nationals winning the available markets.

Mrs Thatcher has made an issue of privatisation but she is not privatising alone. To name a few others, Japan is selling the state railway and a third of Nippon Telegraph and Telephone. West Germany is privatising over a billion dollars of government holdings. The Canadian Federal government is selling a regional airline, a trucking and a shipping corporation. Socialist Mexico is selling 236 state-owned enterprises. Communist Hungary and China are privatising.

In Australia, the H V Evatt Memorial Foundation, which has the best of socialist credentials, recently ran a seminar on privatisation, inviting both sides of the argument to speak. Most people who attended worked in the public sector and most were active unionists, it will therefore come as no surprise that there was less than a full meeting of minds. Nevertheless, in spite of minor paranoia on the part of some speakers about what they called 'the new right', the debate was friendly. 'The new right' seems to be the Australian Institute for Public Policy (AIPP), the Centre for Independent Studies (CIS), the Institute for Public Affairs (IPA) and the Centre of Policy Studies (CoPS). As these all want to reduce the power of the crown, 'the new left' might have been more descriptive but whats in an insult. As Humpty Dumpty remarked to Alice, "When I use a word it means whatever I choose it to mean."

The most revealing statement of the conference was made by Mr Ian Reineke of the Australian Telecommunications Employees Association. He told us that when the Davidson Inquiry recommended partial privatisation of Telecom, and some MP's (I was one of them) tried to have the recommendations implemented, he was able to enlist the support of the National Party to thwart us.

The alliance of a trade union with that self professed scourge of the unions, the National Party, is surprising only until one realises that farmer's telephones and are subsidised by the high fees charged for telephone calls between Melbourne, Canberra and Sydney. Only a monopoly could charge such fees. In the first instance the subsidy is paid by business, but companies don't have living standards, they must pass the cost on. That way people who live in Redfern and Footscray featherbed farmers like me and Telecom staff like Mr Reineke.

Writing for AIPP (25 Mount Street, Perth) Dr Peter Hartley compared incentives facing politicians, bureaucrats, employees and clients of public utilities with those of private firms. He explains union-client-politician alliances, such as that described by Mr Reineke.

Hartley shows that the State Electricity Commission of Victoria (SECV) does not price so as to maximise the user's enjoyment but instead efficiently maximises the SECV staff's gains by increasing demand for capacity in the system. Cheap (below marginal cost) electricity provided to rural areas, poor maintenance, and a preference for brown outs and black outs instead of supply contracts (at a cheaper price) which would allow the commission to switch some users (who have auxillary generators) off, all create a political demand for greater capacity, more bureaucrats and more engineers. The policy also serves rural politicians.

Hartley draws the parallel with Telecom's pricing policies and Telecom's non-price rationing (for instance its queues of people waiting for connection). He constructs a general picture of the incentives facing the employees of all public sector monopolies.

Like employees in private sector their rewards are likely to be greater if they are part of an expanding empire. When customers have choices, services can be expanded and perks financed only by satisfying the customer with price and quality, but when customers have no choices those who need a service most can be 'taxed'. The 'taxes' can be used to featherbed present employment or expand the service by subsidising those customers who least want to pay whatever the service costs in their circumstance.

Public sector monopolies give politicians opportunities to subsidise favoured voters. The result is less-than-holy alliances from which diffuse interests, the inarticulate and the disorganised are unlikely to benefit.

However, the circumstance which does most to ensure that the public will benefit from privatisation, is not private ownership but competition. Hartley concluded: "Privatisation of many government enterprises can lead to efficiency gains so long as care is taken to ensure that the resultant market structure is competitive." Whether the preference for private ownership is ideological or pragmatic, that is the most important point for privatising governments to understand.