Privatization in Australia: How Much and What Impacts?

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Introduction

AUSTRALIA HAS NOT been a notable leader in privatizing public enterprises. Over the last eight or ten years, however, the pace of this activity has increased dramatically. In this, Australian governments appear to have been following those of Britain and New Zealand: it can be argued that Australia’s experience here has been highly derivative, in marked contrast to its long and innovative earlier experience in building up a public sector that was unusually large and diverse by Anglo-Saxon standards. (It may be, of course, that it is much harder, in these days of the proverbial “global village,” for a country to follow policies which make it markedly different.)

At EROPA’s 16th General Assembly and Conference in Tokyo in September 1995, I reported on changes in Australia’s airport service industry which illustrated several trends in administrative decentralization, the major theme of that meeting (Wettenhall, 1996). As part of that change process, several of the country’s major airports are currently being transferred from a statutory corporation to separate private managements holding 50-year leases from the national government. This is part of a much broader privatization program now being pursued by the national (Commonwealth) and sub-national (state and territory) governments.

With two University of Canberra colleagues,1 I have been engaged over the past three years in researching some of the effects of this program. As a centerpiece of this research, we have undertaken case studies of nine recently privatized Australian enterprises. But we have also been inquiring into the costs and benefits of privatization generally (for an early statement, see de Ru and Wettenhall 1990), and we have been trying to make some sense of the now voluminous worldwide literature on the subject, particularly as it provides insights which help us better to understand the Australian experience.

Privatization is political activity, and most such activity brings benefit to some groups and disadvantage to others: inevitably, therefore, we find ourselves asking who win and who lose from these privatizations. This paper gives a brief indication of the dimensions of the Australian program, and discusses some of its outcomes. A companion paper will say something about the character of the public sector that is being impacted by this privatizing action, and explore the reasons for and the myths surrounding the Australian conversion.

It is necessary here to state only that the Australian public sector was, from the early European settlements through to the 1970s, relatively large by the standards of the Western democracies, particularly Britain and the United States. But it was not large when compared with the public sectors of the centrally planned economies or of many developing countries. Also many Australian public enterprises were profitable, and many competed with private enterprises - they were by no means all monopolies.
Jumping Onto the Privatization Bandwagon

A Slow Starter, but Quickening!

There was awareness through the 1980s of the massive privatizing movement unleashed by the Thatcher government in Britain (e.g., Wiltshire 1987), but still much opposition to the idea that Australia should follow suit. However there was a hint of the dramatic change to come as the 20th century drew towards its close in the 1981 report of the “Razor Gang” of ministers: set up by the Fraser Liberal/National Party government to investigate ways of streamlining and pruning the Commonwealth public sector, this committee proposed a number of activities to be discontinued, some of them by sale to private interests (Fraser 1981). Not much happened before 1983, when the Hawke Labor government was elected. Through the 1980s, however, the two non-Labor parties (which usually worked in coalition) produced a number of “hit lists” of public enterprises they said they would privatize when they next came to government.\(^2\)

At Commonwealth level this did not happen until 1996, but Coalition governments elected in several states paved the way: that elected in New South Wales in 1988 adopted a “corporatization” policy (on the post-1984 New Zealand model) which adopted many private sector precepts, while that elected in Victoria in 1992 moved quickly and aggressively to sell off many of that state’s public enterprises. While this was going on, a significant transformation occurred within the Labor Party, governing at Commonwealth level between 1983 and 1996. Though the party’s rank-and-file and its trade union supporters strenuously resisted, the party leadership became converted to economic-rationalist values and determined to mount a program of microeconomic reform (see e.g., Beckett, 1992; Quiggin, 1996). In the process the party lost many members; nonetheless, as the country moved into the 1990s, Labor governments under Prime Ministers Hawke and Keating began to sell off public enterprises. The Howard Liberal/National government elected in 1996 is continuing the process, and Labor protests (now that it is in opposition) seem hollow given its own record.

By March 1998 a Sydney newspaper was proclaiming Australia to be a “world leader in selling public assets.” It asserted that “Australia, led by Victoria’s Premier, Mr. Kennett, is [now] officially one of the world’s keenest privatisers.” The source of this verdict was apparently a Reserve Bank official; the claim was that Australia was, among the OECD countries, second only to Britain in the value of privatizations from 1990 to 1997; and, relative to the size of the economy, second only to New Zealand. An investment banker was quoted as suggesting that another $80 billion could be raised from sales over the next five years (Hughes, 1998).

Whether this is a reputation to be proud of is a very moot point!

What is Being Privatized?

The Commonwealth has now sold its commercial bank (one of the largest in the country), its domestic and international airlines, its naval dockyard, its defense-related aircraft factories, its communications satellite system, its engineering-consulting enterprise, its natural gas pipeline system, the railway service it ran for outback areas and the two smallest states, its serum laboratories enterprise, the management of the superannuation fund for public sector employees,
the housing network for ex-servicemen, one-third of the national telecommunications system, and several smaller enterprises. Fifty-year leases of several major airports have been sold, and planning is under way for further disposals including the shipping line and the rest of the telecommunications system. Most of the state banks and insurance offices have been sold. Victoria has broken up and then sold its electricity system and other states are moving in a similar direction. They have variously disposed of other enterprises such as grain storage and water supply, central markets, totalizator enterprises (introduced a couple of generations ago as an important public initiative to cleanse the gambling industry), gas pipelines, port facilities and research establishments. Several of the jurisdictions have established asset sales offices to handle their disposal programs.

The picture is uneven across the states and territories, and many public enterprises remain in existence. But this privatizing movement has obviously been of considerable magnitude, so much so that the Australian public sector is, relative to the total economy, far smaller at the close of the 20th century than it was in mid-century.

**Methods of Sale**

Most of the divestments to date have been either by trade sale to an established private organization or by public float after listing on the stock exchange. In one notable case (that of the Snowy Mountains Engineering Corporation), the method was a buy-out by managers and a group of senior staff. In a few cases the preferred method has been by industry takeover: thus New South Wales sold its grain storage system to a combine of grain producers and its Sydney Fish Markets to a combine of fishing interests. Where whole enterprises have been divested, they have, in their final stage of public ownership, been rearranged as government-owned companies, facilitating the transfer of shares. In some cases, the sale has been processed over several stages: e.g., three branches of Commonwealth Bank shares sold by public float, and a trade buy-out (by British Airways) of part of the Qantas shareholding before a public float of the remainder.

The choice of method can significantly affect outcomes, and the public float has become increasingly popular as a political device for winning support from those with money to invest. It assists governments in their desire to reduce budget deficits, pay off debt and fund schemes designed to attract voters, and more generally aids the cause of establishing a “people’s capitalism.” This is further considered below.

**Sale Proceeds**

Table 1, showing the contribution to Commonwealth budget revenue from sales of a number of enterprises through the 1990s and based mainly on data provided in the Department of Finance Annual Reports (DoF 1988-1999), gives some idea of the financial impact of the divestment program in that jurisdiction. I know of no authoritative compilation which aggregates such information for all Australian governments, though some of the states have similarly received considerable revenue from sales. In the most dramatic case, the proceeds of Victoria’s electricity privatization now total $22.9 billion, and they have enabled the state to pay off about two-thirds of its debt (Walker, 1998). Though the large divestments have all related to public enterprises, some others are also noted in the Commonwealth reports, e.g., uranium and phosphate stockpiles and surplus land no longer required for government purposes.
Table 1. Contribution to Budget Revenue from Some Major Sales, 1990-1997

<table>
<thead>
<tr>
<th>$A (to nearest million)</th>
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<tbody>
<tr>
<td>Belconnen Mall shopping complex, Canberra 87 a</td>
</tr>
<tr>
<td>Williamstown Naval Dockyard 102</td>
</tr>
<tr>
<td>Commonwealth Accommodation &amp; Catering Service Ltd (hostel &amp; food service for Commonwealth agencies) 6 b</td>
</tr>
<tr>
<td>Defence Service Homes Corporation (residences for ex-servicemen) 1,516</td>
</tr>
<tr>
<td>Commonwealth Bank (1st share offer) 1,292 c</td>
</tr>
<tr>
<td>Qantas (25% equity to British Airways) 666</td>
</tr>
<tr>
<td>Commonwealth Bank (2nd share offer) 1,700</td>
</tr>
<tr>
<td>CSL Ltd (Commonwealth Serum Laboratories) 299</td>
</tr>
<tr>
<td>SMEC Ltd (Snowy Mountains Engineering Corporation) 2</td>
</tr>
<tr>
<td>Qantas, 2nd stage (public share offer) 1,450</td>
</tr>
<tr>
<td>Moomba-Sydney Pipeline System 534</td>
</tr>
<tr>
<td>AeroSpace Technologies of Australia Ltd 36</td>
</tr>
<tr>
<td>Commonwealth Bank (3rd share offer) 5,000</td>
</tr>
<tr>
<td>Commonwealth Funds Management Ltd 62</td>
</tr>
<tr>
<td>Avalon Airport (left over from AeroSpace Technologies: lease) 2 d</td>
</tr>
<tr>
<td>Three metropolitan airports (50-year leases) 3,308</td>
</tr>
<tr>
<td>Telstra (1st share offer) 14,200</td>
</tr>
</tbody>
</table>

In 1986: first Commonwealth sale of the recent period.
Plus repayment of outstanding loans.
Retained by Bank to finance takeover of State Bank of Victoria.
Plus ongoing rent and commercial improvement payments.

Other Forms

Privatization is notoriously a slippery term which has been used in many ways: for some, the liberalizing or commercializing of activities which remain within the public sector, and the removal of public regulation of private business, are seen as privatizing activity. Asset sales represent the hard core, but there are other processes which also involve clear movement from the public to the private sector. Contracting out is a notable case: as we are repeatedly told, it is the most popular form of privatizing in the United States, where asset sales have not proved popular. Australian governments have greatly increased its use in the recent period.5

A survey of the Australian experience points to three other ways in which governments transfer business to the private sector: management contracts (where the property—e.g., a prison—remains in public ownership but a private firm is contracted to provide the management service); private provision of infrastructure (under arrangements such as BOO [build-operate], BOT [build-operate-transfer] and BOOT [build-operate-transfer]); and sale and lease-back (e.g., of power stations, car fleets and office buildings). All these forms are controversial, but most public debate has focused on the big public enterprise divestments.
Winners and Losers

On Measuring Impacts

When we began our research project three years ago, we believed that a comparison of the financial performance of an enterprise before and after privatization would tell us much about the success or otherwise of the divestment. But we were also aware that it would not tell us all we needed to know about its impact. So we looked at existing efforts to use cost-benefit analysis (CBA) and its planning balance sheet (PBS) variant to facilitate such measurement. They had the advantage of bringing other than economic and financial tests to bear on the problem, but all suffered from undue emphasis on quantitative rather than qualitative data (Collyer, 1996: 25-6). We concluded that it was important to explore social and political as well as economic/financial effects, and were attracted to the notion that we should seek to identify winners and losers.

As Australian researcher John Ernst points out, the “language of winners and losers is a natural part of the market environment;” for him, “the dynamic of inequality” is “implicit in privatization” (Ernst 1997: 17, 19). This proposition was so clear to other Australian researchers drawn from the disciplines of social work and pharmacy that they offered this simple definition of privatization: “direct transfer of valuable community-owned assets to those with ready cash” (Rees and Rodley 1993: 226). Ernst also asserts (1997: 18) that little interest is shown by governments and others now subscribing to the political correctness of privatization and competition policy “in finding out terribly much” about their social impacts. An important aim in our research is to investigate such claims.

The divestments of the late 1980s and early ’90s usually followed the trade sale method, and foreign buyers were prominent in the transactions. While tenders were called for these sales, on commercial-in-confidence grounds many of the details were not revealed; public accountability was thereby often obscured. However Finance/Treasury officials express the view that governments are likely to receive more for this type of sale, since the purchasers are prepared to pay for commercial advantage that comes from taking over the goodwill of an existing business, removing a competitor, and/or sometimes gaining a monopoly position in the market. By the time New South Wales moved to dispose of its State Bank (in 1994), the downside of this type of divestment was sufficiently apparent for the state to impose conditions which prevented sale to an existing bank.

Trade-sale divestments have continued. But a major feature of the Australian 1990s experience has been the growing attraction of the public float method, which had precedents in the British experience of the 1980s. In New South Wales, a highly entrepreneurial state insurance enterprise earmarked for privatization (Government Insurance Office or GIO) resisted a proposal that it be disposed of by trade sale to one or more of its existing rivals; the eventual 1992 float of all its shares (it was converted into a company prior to the sale) preserved its separate identity as a vigorous competitor in its industry.

The Human Dimension: New Owners, Finance Industry, Senior Managers

Having been converted to the float plan, the selling government was well aware that it was introducing a new element into the divestment program. To attract as much favorable publicity as possible, both to enhance its own electoral popularity and to attract good revenue from the
sale, it campaigned strongly to persuade ordinary Australians to buy shares. This was the first of the by-now proverbial “mums and dads” floats, and the NSW example has been followed in other major Australian public enterprise divestments. There are price incentives to attract small investors, and some limits on the proportion of shares initially available to financial institutions and foreign investors. Almost without exception, these floats have been followed by dramatic rises in share values. The example has been copied in the “demutualization” of a number of life assurance offices. A comparison of their outcomes with a few outcomes of floats of what were previously private proprietary companies was prepared late in 1997; it is adapted here as Figure 1.

**Figure 1. New Floats - Share Price Gain Since Stock Exchange Listing**

Source: Adapted from Were, 1997: 1.

Key:  
- CBA installments: from 3rd tranche of Commonwealth Bank of Australia shares  
  (installment is first part of payment for share)  
- BankWest: the former Rural and Industries Bank of Western Australia  
- Tabcorp: the former Totalizator Agency Board, Victoria  
- CSL: the former Commonwealth Serum Laboratories

The pattern has continued with more recent floats. The late-1997 sale of one-third of Telstra, the hitherto fully publicly-owned telecommunications corporation, attracted about ten per cent of the Australian population (1,866,000) as buyers and the shares more than
doubled in value in a few months of trading on the stockmarket (Elliott, 1997, 1998; Morrison, 1998; CT, 1998). The message to the “mums and dads” is so positive that, when the New South Wales government floated its Totalizator Agency Board in mid-1998, more than 750,000 people rushed for shares and the government had to reduce drastically the number on offer to each individual (Snell, 1998). Delighted, that government declared in a major advertisement that the “TAB float has raised $1 billion for the State. Not a bad return” (NSWG, 1998); not surprisingly, it was silent about the value of the assets that had been traded to produce that result!

Here we see a strong indicator of the “people’s capitalism” effect: governments and market instruments like the stock exchange combine to extoll the gains in terms of spread of shareholdings. One major newspaper quotes “business economists” as declaring that buying these shares is “a better investment than buying a house” (Aylmer, 1998). Similar euphoria followed the early 1980s public floats in Britain. But it was then also pointed out that many of the small shareholders soon sold their shares to the financial institutions, resulting in a quick narrowing of the shareholder base (see e.g., Wiltshire, 1987: 73-4). In the three Australian public float cases we have studied in detail, there has been a similar drop in the total number of shareholders and consolidation of shares in the hands of the larger institutional shareholders. This is indicated in Table 2. It is likely that foreign ownership of shares has also been increasing, although relevant controls and information are both sparse: this has been acknowledged as a problem only in the case of Qantas, which was already one-quarter owned by British Airways before the float.

Table 2. Post-sale Shareholding Trends (To Mid-1997 Reporting Date)

<table>
<thead>
<tr>
<th>Entity</th>
<th>Year of Sale</th>
<th>At Point of Sale</th>
<th>At Mid-1997</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GIO</td>
<td>1992</td>
<td>127,200</td>
<td>88,682</td>
<td>30.28 drop (a)</td>
</tr>
<tr>
<td>CSL</td>
<td>1994</td>
<td>35,873</td>
<td>26,084</td>
<td>27.29 drop</td>
</tr>
<tr>
<td>Tabcorp</td>
<td>1994</td>
<td>39,482</td>
<td>37,495</td>
<td>5.03 drop</td>
</tr>
</tbody>
</table>

Note (a): In the GIO case, it is also revealed that the proportion of shares held by shareholders with 10,000 or more shares rose over the same period from 42.78 per cent to 64.39 per cent.

These appear to be only minor dents in a generally rosy picture. A mid-1997 survey for the Australian Stock Exchange (ASX) revealed that more than a third of adult Australians had then some form of shareholding, and ASX Managing Director Richard Humphry extolled this large interest by “private investors,” i.e., small investors who “bring stability and liquidity to the share market” (CT, 1997). A year later—after the one-third Telstra sale—a similar ASX survey revealed that, through the floats of public enterprises and the demutualizations which led to direct individual ownership of shares, and through “indirect means such as managed funds or private superannuation”... more than 5,500,000 adult Australians now have some exposure to the Australian share market” (CT, 1998). For the ASX and its associates, this was Heaven on Earth, and it is easy to see that the new owners — both the small
investors and the larger investing institutions — were, along with all the sharebrokers and others in the finance industry who serviced their needs, winners in this round of privatizations.

Because there is a potential downside of risk for the owners, it is likely that the finance industry is the major winner. The sharebrokers take their winnings and the bankers their fees whenever shares are bought or exchanged. And others in and around the industry — particularly the big accounting, consulting, legal and advertising firms, described by Hood and Jackson (1991: 191) as “privatization and corporatization brokers” — take their commissions and win their ongoing business (e.g., as share registrars) as the floats take place. They advise governments, they advise the public enterprises being prepared for sale, they advise potential buyers: there are immense possibilities for conflict-of-interest situations to develop. While to my knowledge there has been no adequate exploration of their role anywhere, it is very safe to say that they have developed a vested interest in stimulating the privatizing activities of governments and keeping them vigorously lubricated. An analysis of the New Zealand experience of the later 1980s and early ‘90s—when the finance industry was reeling from the stockmarket crash of October 1987—speaks of “the hidden subsidies [that] flowed to the financial sector” to rescue it from those effects (Easton, 1993: 157).

One Australian study of these transaction costs showed that, in the case of the New South Wales GIO, they amounted to 5.94 per cent of the sale proceeds, compared to 2.93 per cent of proceeds in the case of sale of the first tranche of Commonwealth bank shares (Walker and Howard 1992: 17). In the case of the one-third Telstra sale, the Department of Finance estimated that they would be in the order of two per cent of the sale proceeds, which eventually amounted to $14.2 billion (quoted in SERCARC 1996: 66). The New Zealand analysis indicates that selling that country’s Telecom “involved the private sector receiving in excess of $100 million for advice and other services” (Easton, 1993: 157).

There is one other group of clear winners: the senior staff and particularly the executives of the divested enterprises who survive the transfer to private ownership. Mostly they will have received generous discounted allocations of shares, and their salaries will now reflect prevailing private sector standards. However our case studies indicate that there are varying levels of advantage here. In Tabcorp the new chief executive appointed as part of the privatization process received a salary package estimated to be worth $8 million over five years, and to a degree that established levels for other senior staff (Thomas and Kearns, 1994; Tabcorp, 1997: 53-4). Canberra’s Belconnen Mall was absorbed into an organization whose chief executive received an annual package said to be worth $5.6 million, whereas the privatized GIO came to be recognized as an exemplar of restraint in such matters, its chief executive limiting his earning to around $600,000 per year (Young, 1997).

It is probable that those top government bureaucrats who, with leading politicians, have together developed the so-called New Public Management (NPM) doctrines which guide so much of today’s administrative reform are also major beneficiaries; that privatizing what were once government businesses, along with the whole push towards contracting out and private provision of infrastructure, has brought them significant gains. Thus they have been removed from “potentially conflict-laden and stressful” close responsibility for a large range of operational functions and organizations, they have won closer involvement “with high-level peers and high-status people in politics,” and they have been provided with enhanced “contacts with private industry which may enhance their own career options.” This explanation fits well with the concept of “client politics” (Wilson, 1980) which proposes that “benefits
arising from public regulatory power are concentrated on a small, easily-mobilized group, while the costs are paid by a group which is larger and more diffuse, and hence harder to mobilize" (quotations from Hood and Jackson, 1991: 191; also Martin, 1983; Dunleavy, 1986).

The Human Dimension: Others

So we come to the losers. Since they are more diffuse, it is harder to identify them in precise terms. But they exist, and a consideration of the arithmetic of privatization is likely to highlight their predicament. Such consideration gives general support to Ernst’s contention:

> a disproportionate share of any material gains from privatization [is] captured by the new property owners and managers (i.e., shareholders and senior executives). Other stakeholders, such as citizen/taxpayers, ordinary consumers and industry employees, have generally not benefited to anywhere near the same degree (Ernst, 1997: 14).

The combination of political, economic and social forces which has produced this rapid increase in the number of Australians holding shares (and winning the financial benefits that come with them) has also produced significantly higher unemployment levels, a weakening of trade unions which have long protected worker interests, and a dramatic widening of the gap between rich and poor working families in terms of earning power. To give just one indicator: in the mid-1990s the richest were earning 13 times more than the poorest, compared with only eight times in the early 1980s (Landt and Beer, 1998).

The connections are obvious. Top-level salaries often increase with privatization, and we know that the trade unions have far weaker hold in the private sector: weakening them is one of the reasons for privatizing. Also governments invest much energy in making public enterprises attractive to private buyers, and very often this includes massive staff downsizing. Thus an Australian Senate committee has pointed to 30,000 retrenchments in the telecommunications enterprise prior to the first share sale, and estimated the cost of redundancy pay and superannuation payouts at $1.2 billion (SERCARC 1996: 66). Pressures to behave commercially remove internal cross-subsidising and other measures to protect weaker consumers, is as well illustrated in the case of the selling-off of New Zealand’s public housing stock: there “market rents” have been introduced, many tenants cannot afford them, and a high level of housing repossessions has resulted (Newby, 1993: 167). All such factors contribute to the widening gap between the rich and the poor.

None of this should surprise. It has long been understood that the development of the public sector in Western democratic societies has been directly associated with policies designed to reduce the gap between rich and poor. Using the imagery of welfare scholars (Graycar and Jamrozik, 1996: 2745-6), it is clear that major mechanisms like “the welfare state” and public enterprises run by statutory corporations—businesses with human faces—have helped these societies put fences around cliffs so that their weaker members will not fall off. But that has been expensive, it has required relatively high levels of taxation, and to those of Mrs. Thatcher’s ilk it has been inherently inefficient. In seeking to reverse these “ills,” they have generated counter-policies which seek only to provide ambulances for those who have fallen off. Privatization is an essential part of this strategy: so public sectors shrink and the rich-poor gap widens.
Other Dimensions: Efficiency, Environment and Public Finance

It is sometimes said that public enterprises are “fattened up” by governments in preparation for sale. This is very relevant here, although the process is probably better described as “thinning down.” It takes a variety of forms, and many are costly. Staff downsizing as in the Telstra case is a common method of preparation. In other cases non-commercial functions are removed from the enterprise and/or liabilities removed from its accounts. Governments sometimes indemnify the new owners for classes of risk they would otherwise bear, so that the risk remains with the public sector while the activity leaves it; sometimes tariffs are increased before sale to offer buyers more attractive earning prospects. And large enterprises can be “disaggregated,” providing opportunities for comparative benchmarking and other forms of competition. In a somewhat different sort of preparation — because it may either increase or decrease their costs of production — governments may force their enterprises to adjust their loan portfolios to give them debt/equity gearing ratios closer to those prevailing in the private sector.

In the sense of optimum output-resource match it is likely that efficiency will be enhanced by these measures, and it is not surprising that the privatized enterprise will appear to be more efficient. But some enterprises in public ownership are already reasonably efficient in these terms. And the question arises: why not take these measures anyway (i.e., irrespective of a possible change in ownership) to ensure that public enterprises do operate efficiently? If governments are resolute, it can certainly be done; in theory at least, this is the reasoning behind the notion of “corporatization,” which has also gained popularity in the recent NPM period. In the case of GIO, the chief executive insisted (in interview) that corporatizing has been an ongoing process over several decades; and no one seriously doubted that his enterprise was efficient. Sadly, he was himself brought to the point of favoring privatization: as he explained, full commercial efficiency was certainly possible in the public sector — the problem was that governments could not be relied on not to re-intervene and remove the conditions which made it possible.

On the matter of directly comparing pre-sale and post-sale performance (e.g., profitability) in a privatized enterprise, we discovered that the cumulative effect of these adjustments often produced so much change that any conclusions drawn would be illusory. It is much safer simply to point out that there is wide agreement that competition is a great motivator of efficient performance, but no agreement at all that movement to the private sector is a necessary condition.

Impact on the environment is another significant performance issue. It is likely to be most keenly felt in utility industries such as water, gas and electricity, and here — apart from the state of Victoria — there is not as yet much Australian experience. In his comparative study of British and Victorian utility privatizations, however, Ernst suggests that major problems may flow from disaggregating large monopoly enterprises. Breaking up these enterprises as part of the privatizing process is advocated as a way of introducing competition. But it “remove[s] much of the incentive, and indeed the capacity, for using current methods of demand side management, and the use of least-cost and integrated resource planning;” the “critical nexus of economic incentive and resource planning” is thus broken. Only strong public regulation could overcome this problem, but the advocates of privatization and competition are usually also committed deregulators. Where this leaves consumers is equally problematic (Ernst, 1997: 20-2; 1994).
Finally, the public finance aspect: a very serious problem here is that the financial side of privatization is usually handled in such a way that the proper interests of the public sector receive little attention or protection. Privatizing governments always emphasize the sale receipts (thus the Commonwealth government proclaimed the receipts from the one-third Telstra sale — $14.2 billion — as evidence of a great success), but they say little about sale costs. We have seen that the immediate transaction costs — fees and commissions to sale facilitators — can be high. These two items are all that annual revenue-expenditure budgets will show (Quiggin, 1995: 24; Collyer, 1996: 26). But they by no means tell the whole story.

In the earlier stages of the current round of Australian privatizations, governments were often ready to address the issue of the dividend stream foregone as a balancing item—but no longer, as they now want to divest at any cost. Other costs which are ignored when governments publicize sales income are those involved in removing debts of the enterprise, restructuring, closure of uneconomic plants, preparation of contracts and legislation, and other measures taken that enable the sale to take place or make the enterprise more attractive to potential buyers. Indemnities granted to new owners are harder to measure in cost terms, but they also should not be ignored. And it is generally assumed that the tax factor will be neutral (i.e., governments will collect taxes irrespective of whether the enterprise is publicly or privately owned); but even that assumption is problematic, for it is usually easier for private interests to engage in tax avoidance schemes.

Another major question is how governments place a value on the assets they are selling. Here they depend heavily on the advice of financial and other consultants; but, as we have seen, such advisers have a vested interest in promoting privatization. Also, once governments have decided to sell, it appears electorally advantageous “to sell well:” the short-term aim then is to do it quickly, smoothly and, in the case of the public floats, to attract large numbers of those “mums and dads.” So there is much pressure to make the price of each share attractive to the market. Not surprisingly, when share values increase so dramatically in trading soon after sale, many conclude that they were underpriced at point of sale. The new owners reap great benefit, but the ordinary citizen as tax-payer has sacrificed much.

Then there is the question of what governments do with the income received from sales. Much of it goes on public debt reduction, and much is made of that as being beneficial to the public interest. Certainly it pleases the international (private) credit-rating agencies; but surely it should first be asked whether or not the value of the interest payment saved is greater than that of all the sales costs including dividend stream foregone. Australian governments sometimes also place part of the sales income in special funds, such as a National Heritage Fund containing some of the one-third Telstra sales receipts. This helps governments cover what may well be socially desirable expenditures, but they will undoubtedly do it with an eye on winning electoral popularity, so that short-term considerations will again be prominent. Given that the main aim is now to reduce the public sector, they are highly unlikely to invest in activities—such as new public enterprises—which will maintain that sector and create new dividend streams for government. So long-term assets are exchanged for short-term liquidity: thus an earlier British Conservative Prime Minister, Harold Macmillan, complained that Mrs. Thatcher was giving away the family silver to finance binges at Harrods!
Privatization Should Be in the Public Interest

Such considerations should weigh heavily with all those who believe in strong government and healthy public sectors. They emerge when we seek to evaluate privatization from the political and social perspectives. But, as my colleague Collyer has pointed out (1996: 25-6), they are ignored by much economic analysis and by all those who rely primarily on financial accounting data. Ernst’s comparative study (Britain/Victoria) was persuasive in thus concluding that privatization settlements favor new owners and that the “public ... as taxpayers” lose out (Ernst, 1997: 15). It is in this context that Max Neutze, an Australian economics professor with a social conscience, wrote after the one-third Telstra sale that, as “an individual shareholder,” he was able to buy 2600 Telstra shares and as a result made a capital gain of about $4200; but that, as “a citizen of Australia,” he was appalled that a national asset of which he considered himself a joint owner “was apparently sold for about $6700 million less than its full market value ... [so that] most Australians who did not buy shares are poorer” (Neutze, 1998).

Perhaps the ultimate tragedy is that many of the advocates of privatization find it necessary to proclaim the inability of the public sector to do practical things — which by extension soon becomes anything — well. The morale of so many people working capably and conscientiously within the public sector is weakened and often destroyed. And so many ways are discovered to entice the best of them to leave that sector. The inevitable outcome is drastic weakening of the public sector and of the collective social spirit its best efforts can stimulate; indeed, a drastic weakening of government itself (for an international commentary, see Haque, 1996).

Paraphrasing Ernst (1997: 20), the onus needs to be put on proponents of privatization to establish the public interest case for their policies. For clearly the present love affair with privatization is based on private interests.

NOTES

1. My colleagues in this research are Dr. Fran Collyer (sociologist) and Associate Professor Jim McMaster (economist). An early statement of our work is: Collyer, McMaster and Wettenhall (forthcoming).
2. It needs to be explained that, like other governments around the world, past Australian governments have not infrequently disposed of some public enterprises as they have been creating new ones (see Wettenhall, 1983: 16-18). This was part of a process of boundary adjustment between public and private sectors that has been going on for almost as long as we have had organized government. What is new about the current movement is the conviction many now hold with a sort of religious zeal that the change should all be one way, from public to private.
3. On the continuation of many enterprises in public ownership notwithstanding the avalanche of privatizations, see Wettenhall, 1993; World Bank, 1995.
4. On the organizational issue of the movement away from the older public/statutory corporation to the company form, see Wettenhall, 1998.
5. In Australia these moves have been matched by a dramatic down-sizing of the central public service, some of its tasks being discontinued and others removed either by being
contracted out directly to the private sector or by being hived off to non-public service agencies, some of which will eventually be privatized. In Australia as elsewhere, however, contracting out (or outsourcing) it is by no means a new technique: governments have been using it at least since biblical times (McIntosh et al 1997).

6. They offer this companion definition of deregulation: “Removal of constraints on actions of the rich.”

7. A year earlier about 20 per cent of the shares in the Commonwealth Bank were also floated, that statutory corporation also having been converted into a company to provide a divisible shareholding. But the income went to the Bank itself, to enable it to expand its capital and so buy out the Victorian State Bank.

8. Investments of this sort have also increased dramatically in the recent period as governments have developed policies to direct citizens away from reliance on the publicly funded welfare system.

9. This is the case especially for the small investors. A bank survey at the same time as the second ASX survey sounded a note of warning: 31 per cent of shareholders surveyed had holdings in only one company, many were new to and had little experience on the stockmarket, more than two-thirds were unconcerned about the possibility of a sharemarket crash, they had often borrowed to finance their purchases, and they were in urgent need of guidance about the risks involved (Koutsoukis, 1998).

10. For a similar lament from Britain, see Whitfield, 1992: 73-5, 291-2.

11. It is not so clear that lower-level staff have shared the benefit. Often the shift to the private sector has weakened management commitment to values developed in the public sector such as equal employment opportunity; and in one notable case, that of the State Bank of New South Wales, claims of efficient staff performance made to attract buyers were not matched by generosity in claims for appropriate salary recognition (Lamond, 1995: 271).

12. For the industry employees, see note 11. There has not been much Australian research on the issue of consumer satisfaction, though as this paper is being written it is reported that Telstra is now receiving far more complaints about poor service than before the partial privatization. Commentators have been quick to see a connection with the massive staff reductions.

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