PUBLIC OR PRIVATE -WHERE ARE WE?

THE CASE FOR A GOVERNMENT 'FOR-SALE' SIGN

By RUSSELL MILLER

Australia is realising that it cannot afford the inefficiencies of many public-sector enterprises—but not all governments are moving quickly towards reform.

It is not difficult to see that a quiet revolution has been taking place in Australia over the past few years as services traditionally provided by government have been corporatised or privatised.

An airline flight between any two major cities in Australia will illustrate the changes which have been taking place almost without us noticing. On entering the airport we can observe signs which welcome us to the airport on behalf of its owner, the Federal Airports Corporation—a newly created government business enterprise.

As we approach the check-in counter another change becomes apparent. The airline used to be TAA, run by a government body, the Australia National Airways Commission. Now it is Australian Airlines, run by the corporatised and soon to be privatised Australian Airlines Ltd.

The badges on the guards at the security checkpoint carry the name of their employer—a private security firm, rather than the Australian Federal Police.

If we were invited into the cockpit by the pilot during the flight we would discover that instead of the flight being controlled by the Department of Civil Aviation, the pilots now fly aided by air traffic services provided by the Civil Aviation Authority, another new government business enterprise.

That does not, however, mean that there is anything novel about the process of change which we are experiencing. History demonstrates that there really is nothing new under the sun. Fashions and popular enthusiasms seem to be cyclical, disappearing and reappearing from time to time through history. And so it is with privatisation. In the early stages of our civilisation almost everything was privatised, even armies—though few would wish to go that far today.

Given the social and political background of the early twentieth century, the emergence of state-sponsored and state-governed services and business enterprises was not really surprising. A reaction against Darwinist nineteenth-century capitalism, and the attractions of the new and seemingly moral policies of socialism, encouraged a popular belief that some services were better or more fairly provided by government. Other government enterprises, such as the Commonwealth Bank and the then Trans-Australian Airlines, were established largely to compel fair competition among existing capitalistic enterprises.

The pendulum has now swung again, and there has been a general realisation that in most cases true efficiency depends upon genuine competition, and that genuine competition is seldom available to or in a government enterprise which has to

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operate under public-sector constraints. In consequence, there is an intense interest in whether government businesses and services could be delivered better and more efficiently under private enterprise conditions. The opinion of the experts is that they can.

Australia is not alone in seeking efficiencies through privatisation. Indeed, Australia lags behind in corporatisation and privatisation.

World overview

The modern move to privatisation can be said to have started with the Thatcher Government in Great Britain in 1979. Pursuing dual goals of efficiency and social policy, the Thatcher government set about a systematic privatisation program which has resulted in the sale to the public of major British government-owned enterprises with a total current market value of more than $120 billion, including:

- British Airways (1987, issue price $2.1bn)
- British Telecom (1984, issue price $9.3bn)
- Rolls Royce (1987, issue price $3.2bn)
- British Gas (1986, issue price $13.3bn)

Members of the public who took up shares in the newly privatised UK enterprises found that their initial investment was by no means a new form of charitable donation. As Table I shows, the issue price was well below the market price once the stock opened on the stock exchange.

Although not all UK privatisations have been as successful as British Airways, it is interesting to note that in its first year as a privatised company BA increased its pre-tax profits by 41 per cent to a record $540m.

In addition to public floats there have been a significant number of tender offers, management buy-outs and private sales. The result in the UK has been that a broad spectrum of activities undertaken by the government in that country 10 years ago—airports, telecommunications, gas supply, water supply, dockyards—are now undertaken by private companies owned by private citizens.

The British example is, of course, well known. What may not be as well known is that the privatisation movement is by no means restricted to the UK. Dealing first with the Asia Pacific Region:

Malaysia has embarked on an ambitious privatisation program that will see 10 of the country's largest enterprises converted into private companies. Malaysian Airlines and a major State-owned shipping group have already been privatised. Telekom Malaysia was floated at the end of September with a 24 per cent equity stake raising $1.2bn. The National Electricity Board has been corporatised and later this year corporatisation of the airports and Malaysian Railways will be completed.

Japan is proceeding with the privatisation of its railway system—a huge project to sell the three largest and most profitable state-owned railway companies (including the Bullet Train) over the next three years with an expected reserve price of $110 billion.

Singapore has sold 50 per cent of the shares in Singapore Airlines as well as major interests in shipping and in food processing.

The Philippines has disposed of state-owned interests in hotels, sugar and coconut mills, cement plants, car factories, banks and shipping lines.

Moving beyond our immediate region:

Canada raised $250m with the privatisation by public float of Air Canada in 1988 following the sale of six other state-owned enterprises including Teleglobe—the Canadian equivalent of OTC.

Denmark passed a Privatisation Act in April this year and has approved the sale of 80 per cent of the shares in the state life insurance company by auction.

Even the Eastern Bloc countries are moving ahead with strong privatisation programs.

Czechoslovakia is in an advanced stage of bid assessment for the sale of a majority interest in the state-owned vehicle manufacturer Skoda with VW of Germany and a Renault-Volvo joint proposal as the two competing bids.

Yugoslavia is soon to adopt a privatisation law with an immediate goal being to sell between 25 and 30 per cent of state-owned assets to companies and then allow workers to participate through discounted share issues.

Hungary, however, led the way as far as the Eastern Bloc countries are concerned with the privatisation earlier this year of 40 per cent of Ibusz, the state-owned travel agency, tourism and financial services corporation, with more than 50 per cent of the issue going to foreign investors.

These examples are by no means the complete story: there are more than 300 privatisation projects and proposals in Africa and 420 in Central and South America.

This should not be taken as meaning that it is only through privatisation (that is, the divestiture by government of all or a majority interest in an area of operation) that the efficiencies we require can be delivered.

The French example illustrates that governments can continue to own enterprises and deliver those

Table I
UK Pricing of Shares in Privatised Companies

Company	Gross proceeds of sale (Lmil)	Offer price	First trading day	Price at end of first trading day	Percentage rise (fall) in price relative to offer tender price	Under valuation (Lmil)
Offers for sale						
BAA						
(British Airports)	919	245	28 Jul 87	291	19	173
British Airways	900	125	11 Feb 87	169	35	315
British Gas	5603	135	8 Dec 86	147.5	9	519
British Telecom	3916	130	8 Dec 84	173	33	1295
Jaguar	294	165	10 Aug 84	179	8	25
Rolls-Royce	1360	170	20 May 87	232	36	496

Sources National Audit Office (1985, 1987a, 1987b), Mayer and Meadowcroft (1985).

efficiencies provided two conditions are met. The first is that, having established the commercial enterprise and appointed its board of directors, government's role must become that of an institutional investor, leaving it to the corporation to determine and execute the commercial strategies necessary to enhance the business. The second is that the government must resist the temptation to interfere indirectly by placing artificial limits on the capacity of the corporation to raise and service the capital which the business requires and imposing preset dividend requirements.

In France, the government has been able to satisfy those conditions for many years. Renault is the best known example. It is wholly owned by the French government yet operates worldwide as a dynamic, innovative motor vehicle manufacturer.

Australia

The first point that should be made about the Australian position is that there is a tendency in this country to treat privatisation of our state-owned enterprises as a unique matter.The opposite is in fact the case. Australia is lagging behind the rest of the world when it comes to recognising that through privatisation we can make our economy more efficient and competitive.

A very significant battle has taken place in Australian politics over the past three years as many members of the Labor Party at commonwealth and state levels have conceded that privatisation is inevitable, having earlier had great philosophical difficulty with the concept of turning publicly owned enterprises over to the private sector. Gradually the more pragmatic members of the Labor Party and of the general community have come to the realisation that the inevitable rigidities of public ownership and employment are an insuperable handicap to the effective delivery of services.

The first attempts at a privatisation policy by the Labor Party in 1987 found the Prime Minister and the Treasurer fighting a losing battle with the caucus over plans to privatise the airlines on the basis that the government could no longer provide the capital Australian and Qantas required. As one Herald editorial put it:

Australia is lagging behind the rest of the world when it comes to recognising that through privatisation we can make our economy more efficient and competitive.

"The government's declared intention to sell off instrumentalities to private ownership has provoked anger in ALP ranks and public bewilderment. Yet so far the Prime Minister and his Treasurer have almost totally failed in the job of explaining what they are on about—not only to the indignant party faithful but to the nation. Their proposals are cloaked in mysticism. There is a suspicion they are kite-flying to test the depth of opposition."

As the debate raged publicly with headlines such as "Selling the family silver to buy groceries" and "$1bn cost of not privatising" the Minister for Transport and Communications, Senator Evans, attempted to move the debate on to a more rational basis by preparing a number of issues papers on the privatisation of key state-owned enterprises within his portfolio, including Qantas, Australian Airlines, OTC and Telecom in the lead-up to the 1988 Labor Party conference.

Although party support for privatisation was not forthcoming at the June 1988 national conference and the ALP platform continued its rejection of privatisation, the government nevertheless continued preparations for what it saw as the inevitable. OTC, Australian Airlines, the Office of Defence Production and the Government Aircraft Factories were converted into companies with the government holding all shares. Williamstown Naval Dockyard was sold by tender as an operating concern. Corporatisation of the aviation sector proceeded with the establishment of the Civil Aviation Authority and the Federal Airports Corporation.

The privatisation debate went rather quiet after the Labor Party conference but received new impetus as the 1990 federal elections approached. The federal opposition turned up the heat by focusing on privatisation as a key election issue. In April 1989 the opposition published its "Privatisation—The Australian Way" which was shortly followed by "Privatisation—Not the Australian Way", prepared by the ACTU with sponsorship by 12 key unions (thereby guaranteeing the opposition policy extensive and sustained publicity).

The opposition policy stated that in its first term of government it would give priority to the sale of:

- Aussat
- Australian Airlines
- AIDC
- Australian National Lines
- Commonwealth Bank
- Domestic and international airport terminals
- Housing Loans Insurance Corporation
- Medibank Private
- OTC (49 per cent)
- Pipeline Authority
- Qantas
- Snowy Mountains Engineering Corporation

Although the 1990 elections were not to give the opposition an opportunity to put its policy into effect, it would appear that much of what the opposition proposed will come to pass anyway. Deprived of the opportunity to put its policies on privatisation into effect personally, the opposition nevertheless continues to advocate privatisation strongly through its shadow minister for privatisation, Warwick Smith.

Before the election the government had taken a rather adventurous step—given party policy—by partly privatising the Australian Industry Development Corporation (AIDC). A new company, AIDC Ltd, was incorporated and an 18.5 per cent interest in the company was successfully floated to the public in July 1989. Interestingly, the board of the new company included Simon Crean—then the president of the ACTU.

The next to go, as far as the federal government was concerned, was the Housing Loans Insurance Corporation, which was sold late in 1990 to CIC Ltd.

Even though the Labor Party had not come to accept the fact, privatisation had become a reality in Australia as the Government moved slowly and relatively quietly to achieve its objective even though it was still unable to move on the privatisation of key enterprises.

Three events, two by design and the other as a result of disaster, brought privatisation back on to the front pages and into public and Labor Party debate, and ensured that the matter had to be determined once and for all.

The first was the decision by the Treasurer to re-open the public debate. He chose the South Australian Labor Party convention on June 30 to put privatisation of government enterprises back on the political agenda with a sharp comment on the cuts of $900m which had to be made in the funding requirements of Qantas and Telecom. Within days the Prime Minister had added his support to a review of the party platform and the Left were warning that disciplinary action would be taken against attempts to change the platform.

At the same time Kim Beazley, appointed to the Transport and Communications portfolio earlier in the year after quietly and effectively moving the government defence production facilities into the competitive arena through corporatisation while he was Minister for Defence, was pursuing his clear intention of achieving the same competitive result in the telecommunications industry with a complex re-organisation of Telecom, OTC and Aussat.

Unlike the position in 1987, senior cabinet ministers from all factions quickly moved to support the Prime Minister in his call for the privatisation debate to be reopened. Even the president of the ACTU, Martin Ferguson, gave the Prime Minister qualified support.

While the Labor Party struggled towards a special national conference set for September 24, the second event occurred. A dispute within the cabinet became public as disagreement emerged between the Treasurer and his supporters on the one hand and Beazley on the other, over Beazley's plans for competition in the telecommunications industry. The headlines gave a blow-by-blow description: "Hawke joins Megacom push", "Cabinet split on Telecom merger", Telecom plans: PM gags cabinet", "Business sniffs Telecom blood" and, finally, "Beazley wins on Megacom".

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As if that were not sufficient, the third event unfolded with the revelation that the collapse of the merchant banking arm of the State Bank of Victoria, Tricontinental, had been so catastrophic that the Victorian government had been forced to negotiate a sale of the SBV to the Commonwealth Bank. The Treasurer announced that in order to finance the acquisition a 30 per cent privatisation of the Commonwealth Bank would be required.

The resultant special national conference of the Labor Party was something of an anti-climax, as the party voted 60-39 in support of the privatisation of Australian Airlines and 49 per cent of Qantas, and 58-43 to support the Beazley plan to introduce competition into the telecommunications industry by selling Aussat to form the basis of a second network. As the Canberra Times put it: "Sacred cow KO'd in a fixed fight".

As a result it now seems certain that about $3 billion will be raised by the federal government in assets sales from enterprises already identified.

But the special national conference of the Labor Party went further than approving the privatisation of specific enterprises. It also approved an investigation of guidelines for excluding government business enterprises from Loan Council global borrowing limits—a move providing very significant impetus to corporatisation at both the federal and the state level.

With the political debate over, at least at the federal level, the hard work of privatisation now begins. The government and the corporations concerned are moving quickly to retain the lawyers, merchant bankers and accountants who, as in the UK, will provide the expertise to deliver the government's objectives.

While there is some debate over who will go first, it seems clear that the telecommunication privatisation will move forward to a very tight timetable. Mr Beazley is reported to be expecting the second telecommunications licence to be issued by September 1991 and his track record in defence indicates that he has good prospects of meeting his deadline.

The states

No review of privatisation or corporatisation in Australia would be complete without reference to activities in the major states. Although it is activity at the federal level which tends to attract all the attention, the fact is that very significant opportunities for privatisation and corporatisation exist at the state and local government levels. They account for more than $240bn in assets, excluding land. A recent Queensland study reported that a 1 per cent improvement in the return on the assets on that state's seven largest authorities alone would generate savings of $250m annually.

In reviewing state developments I have concentrated on privatisation or corporatisation of state-owned enterprises. It is beyond the scope of this paper to review the developments which have taken place in contracting out and the sale of state assets.

New South Wales: The NSW government has pursued an active corporatisation policy since the July 1988 Report on the State's Finances by a task force chaired by Charles Curran which recommended that the government "move to corporatise its Statutory Authorities in order to improve services and returns on investment and to prepare the way for privatisation of those areas which can be operated efficiently and competitively by the private sector."

Umbrella legislation passed in NSW in 1989, the State Owned Corporations Act, provides the basis for corporatisation of individual government business enterprises, and is likely to provide the model on which legislation in other states and territories will be based. In broad terms, it:

- empowers the relevant minister to form companies in accordance with criteria for memoranda and articles set out in the legislation to take over particular activities undertaken by the minister's department or a state authority within his portfolio;
- sets as the principal objective for state-owned corporations the requirement to be a successful business;
- requires the corporation to prepare, regularly update and measure performance against a corporate plan;
- empowers the minister to direct that the corporation undertake non-commercial activities but only on the basis that it is reimbursed the cost;
- removes all state immunities and state guarantees and subjects the corporation to taxation including a charge equivalent to the income tax the corporation would pay to the federal government if it were not for special arrangements negotiated by the state;
- provides the corporation's board of directors with some flexibility—but not complete flexibility—to acquire and dispose of assets.

The legislation reflects an interesting balance between the desire of the NSW government to allow its state-owned corporations to operate efficiently and commercially without interference, and the need to retain some level of accountability to the parliament.

For instance, the state Auditor-General is entrenched as the auditor of state-owned corporations and their financial statements are subject to Public Accounts Committee review. In addition, if there is a difference of opinion between the directors and the government over the level of dividends, the shareholders (the government) may determine the matter and the directors will be obliged to comply. It will be interesting to see how the legislation works in practice.

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The NSW approach contrasts with the more robust approach taken by the federal government in the corporatisation of a number of business enterprises where it transferred the business to an ordinary company formed for the purpose without any underpinning legislation to impose vestiges of public sector control.

It is also interesting to compare the NSW approach with the approach adopted in the UK. The UK model makes provision for the government to promulgate a scheme for the transfer of assets and liabilities to companies formed to take over the business in question, but leaves the details of the scheme to be negotiated to suit the practical circumstances of the case under consideration. In essence, the UK legislation contains only provisions essential to empower the government to transfer the relevant business undertaking. In that sense it is closer to the federal corporatisation approach in Australia than to the NSW model.

The NSW government moved quickly after passing the State Owned Corporations Act 1989 to create the state's first corporation—the NSW Grain Corporation Ltd. The second State Owned Corporation followed with the creation of the State Bank of New South Wales Ltd on 14 May 1990—the sixth largest bank in Australia with assets in excess of $16bn. The Government Insurance Office was next, changing its name to GIO Australia and expanding aggressively in other states.

Victoria: The former Premier, John Cain, was reported to be considering the privatisation of the Gas & Fuel Corp (already 28 per cent private) and the State Insurance Office but with the recent ascendancy of the Left in Victorian politics it is likely that Victoria will be one of the last states to move towards privatisation.

Nevertheless, the Victorian opposition continues to apply pressure to the government on this issue. In recent speeches the Victorian opposition leader, Alan Brown, has called on the government to corporatise public authorities and signalled that his party would privatise nine enterprises:

- State Insurance Office
- Government Printer
- Gas and Fuel Corporation
- Grain Elevators Board
- Port Authorities
- Accident Compensation Commission
- Transport Accident Commission
- Victorian Tourism Commission
- Portland smelter (government interest)

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It would be unfortunate if in Victoria, one of Australia's most important industrialised states, ideology deprived its citizens of the benefits which privatisation and corporatisation can clearly deliver.

Australian Capital Territory: In a determined effort to achieve an acceptable budgetary position the ACT government established in 1989 the Priorities Review Board to advise it on a wide range of opportunities to make the delivery of services in the ACT more efficient and cost-effective. The board identified a number of options for privatisation and corporatisation.

The government has announced a range of initiatives arising from the report of the Priorities Review Board, including the privatisation of ACTEW and the Mitchell Health Services Unit. Those projects and a number of smaller corporatisation projects are proceeding.

Queensland: Although it is only now starting to embark on a policy of corporatisation, the Queensland government appears to be proceeding methodically to identify state-owned enterprises where significant efficiencies can be gained through corporatisation.

A discussion paper recently published by the Queensland government proposes legislation similar to the NSW legislation to provide a framework for corporatisation. The paper deals methodically with most of the key issues in corporatisation—structure, management autonomy, commercial objectives, accountability, accounting, industrial relations, taxation, asset evaluation. However, the government has, for the time being, foreclosed the privatisation issue by deciding that it is not an appropriate policy for widespread application in the Queensland public sector.

We are starting to catch up with the world.

Nevertheless, in relation to the private provision of infrastructure, Queensland has taken the unique step of allowing the construction of a private-enterprise jail—an experiment which appears to have been quite successful and likely to be adopted by other states.

Western Australia: The Western Australian government appears to be in much the same position as Victoria in the privatisation of state-owned enterprises. There are reports that the premier is prepared to consider privatisation of the Rural and Industries Bank and the State Government Insurance Office but other key government members appear to be strongly opposed.

On the other hand, like most other states, Western Australia is giving careful consideration to allowing private enterprise to undertake significant infrastructure development, particularly in relation to power generation.

Conclusion: Well, then, where are we? A few things are abundantly clear.

First, Australia is coming to recognise that—in the words of the 1989 Industries Commission Report on Public Sector Enterprises—"inefficiencies in the production and pricing of goods and services by governments are undermining the competitiveness of the business sector and depressing Australia's gross domestic product by billions of dollars annually."

Second, we are recognising that Australia cannot afford the cost which those inefficiencies impose on us.

Finally, we are starting to catch up with the world in recognising that privatisation and, as an intermediate step, corporatisation provide mechanisms by which those inefficiencies can be addressed.

The privatisation of Qantas, Australian Airlines, the Commonwealth Bank and Aussat are only the start. In Australia there is much more to come. We should welcome the process as a major economic reform which will benefit us all. □

DON'T SELL THE SILVER, SAY NATION'S ACCOUNTANTS

Australia's largest accounting body, the Australian Society of Certified Practising Accountants, believes that realistic debate on the privatisation question is impossible without a comprehensive listing of all government assets.

A discussion paper issued by the society says that privatisation of government operations has far-reaching implications—but that it is unlikely that any government has accurate, up-to-date assets information. The paper says:

The Australian Society of CPAs believes that, as a matter of urgency, each government in Australia should publish comprehensive, consolidated financial statements. In order to do so, there probably is a need to set up assets registers for budget sector agencies which primarily account on a cash basis.

Each register should list real assets and debts and provide current valuation information.

Why has this not already been done? To set up a register is a straightforward accounting matter. Questions of timings of valuations, and the sheer size of the task, certainly present technical difficulties.

Probably the main reluctance on the past to publish such a register, let alone produce one, lies in the surprises that would inevitably turn up in comparisons between different governments that could provide ammunition for political opponents.

Without a proper accounting of the current situation, however, any argument for or against privatisation is severely impractical.

Sales of government assets to finance tax cuts or consumption spending (rather than reducing government debt) has been likened by Lord Stockton (former British Prime Minister Sir Harold Macmillan) to selling off the family silver in order to buy food.

Information on the current value of assets would show at once whether acts of privatisation were being used to fund consumption spending, or were being applied to reduce public debt or purchase new assets. □