

Privatisation: Consumer interest or “public” interest

Private ownership of resources which can be sold or hired is a proven – so far the only proven – way to improve the standard of living for most citizens.

Twentieth century experiments with large-scale public ownership of the means of production have failed to produce sustained improvements in material welfare for all. There are few who still believe nationalised industries are more efficient than their privately owned equivalents.

Private ownership leads to more output, per unit of input, because of the incentives private owners have to satisfy their customers. State-owned enterprises do not produce the same economic results because they have different objectives. Their achievements are measured at the ballot box, rather than the cash register and on the bottom line. And politicians interfere with their operations accordingly.

Shareholders in large private firms give managers real incentives – to produce results which are good for customers, good for owners and generally good for the public. They benefit from their tax share of the extra income and from intensified competition for their labour and skills.

It is possible to introduce similar incentive schemes to public corporations so that return on capital becomes the measure of management performance and rewards. But private businesses are more likely to introduce incentives that produce greater output with lesser input. The work force of a public enterprise, seeking broader political goals, and rewarded accordingly, will resist changes.

They have a material interest in the status quo. And they can call on a class of privileged customers to help them avoid the full discipline of the marketplace. Political influence over State-owned enterprises often takes the form of charging some customers artificially low prices and recovering more from others less important politically. The privileged consumers thus also have an interest in preserving the system. Such cross-subsiding represents an even less efficient alternative to government simply taxing and spending.

If government wanted to subsidise electricity, water or telephone calls for the poor, it could simply pay suppliers to do so. But then the costs would be obvious and the sums allocated would have to be extracted from social pensions, teachers' salaries or perks for senior officials.

Rural customers of postal services and agricultural users of water and electricity are usually the beneficiaries of cross-subsidisation of goods and services supplied by publicly owned corporations. In SA, Eskom and Telkom have recently extended the scope of their cross-subsidisation to the townships. This has clearly reduced their value as business enterprises to any potential private owner, while they have widened the material interest in State ownership.

The higher charges for electricity or telephones calls paid by the ordinary business customer, however, tend to undermine their ability to compete in the international marketplace. The SA government has intensified exposure to more international competition. Higher taxes of all sorts, including the unavoidable charges made by public corporations, reduce international competitiveness.

A concern for SA's ability to compete with the world in mining and manufacture makes cross-subsidising some electricity consumers less attractive as a political option. In the case of

international telephone traffic, which accounts for a great deal of revenue for Telkom, the call-back options being exercised represent real competition.

This reduces drastically the scope for raising charges to those who would, in the absence of competition, be willing to pay more for the service. Lagging behind best practice in telecommunications certainly keeps SA uncompetitive.

The opportunities for government to tax and spend by stealth, through exercising political influence over Eskom and Telkom or Transnet, thus diminish with competitive pressures.

But perhaps the most powerful political arguments for privatising these enterprises are the advantages it will bring to the fiscus. By selling assets and reducing debts, the government is able to spend much less on interest on their accumulated debts and more on welfare. In this way government could satisfy its commitment to fiscal discipline and to reconstruction and development in a conspicuous way. Politically this is an attractive option.

The reconstruction of government's balance sheet, with fewer State assets and debts, less interest expense but smaller returns from State-owned equity may, in itself, simply be bookkeeping without real economic substance.

It is a process being driven by cash flow accounting conventions, forced on governments and largely avoided by private business whose shareholders measure income, or returns, much more broadly.

If government, or rather the taxpayer, could count the increased value of State assets as part of their income, and capital gains were achieved by good, properly incentivised management of State assets, the case for privatisation as restructuring the balance sheet would be much less obvious.

Privatisation nevertheless deserves every support, even if it were driven only by government's cash flow problems rather than a desire for greater efficiency. The prices achieved in any sale of assets are, in fact, much less important than the process of change it will encourage.

Privatisation will lead to a more customer friendly and internationally competitive economy. It will result in greater output and incomes over time because, with it, more of the economic incentives needed for the efficient management of valuable resources are likely to be introduced.

Further Reading:

World Bank (1995) *Privatisation, Principles and Practice*, International Finance Corporation Johannesburg.

Briefing Paper 19 was written by Professor Brian Kantor of the University of Cape Town, and first appeared in the Financial Mail, August 1996.