

SYMPOSIUM ON THE PRIVATISATION OF STATE ASSETS AND STATE COMMERCIAL COMPANIES

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1 INTRODUCTION

On a public road leading to Gormanston beach there is a notice near the Army shooting range which says that care is to be taken when the warning flag is flying. I was reminded of this in preparing this paper. For a civil servant to speak in public on the politically controversial subject of privatisation the warning flag flaps strongly in the breeze. I intend therefore to limit myself to considerations of a general nature and will not attempt to answer the question whether privatisation is a good thing or a bad thing.

Since 1980 at least 55 State-owned entities have been privatised in countries across the world ⁽¹⁾. The proceeds of these sales have totalled about £33 billion. Our nearest neighbour, the UK, now identified as the pioneer of privatisation, has in the past eight years privatised, either wholly or partially, 16 major publicly-owned enterprises and clearly intends to follow along this course. The sale of these enterprises, which employ 650,000 people and which before privatisation accounted for 40% of the State sector in the UK, raised a total of £17.5 billion sterling. Privatisation initiatives of one kind or another are under way throughout the world, in such diverse places as Spain, Italy, Yugoslavia, Australia – the list is a very long one. All of this activity would appear to indicate that, irrespective of whether privatisation is a good or a bad thing, there is a lot of it about, in one form or another.

2 WHAT IS PRIVATISATION?

The term “privatisation”, although it is sometimes used as if it had a precise meaning, is very much a convenient short-hand description for a broad range of inter-related but distinct policies. Privatisation can refer to the process of de-nationalisation, i.e. the sale of all or part of a State company to private investors whether by way of a stock market flotation, a private placement or some other means. It can also mean deregulation, which involves the opening of the activities of the public authorities to competition from the

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private sector. Equally it can refer to public sector organisations contracting out to private operators the provision of certain types of goods or services. It is, I assume, the first aspect that we are considering this evening.

3 THE DEBATE ON PRIVATISATION

The subject of privatisation is an emotive one and it has generated a great deal of heated debate. Its advocates claim considerable benefits for it while its critics decry these benefits and point out its disadvantages. Behind this debate there is a clash of ideologies and, although this should not, of course, be the sole basis for analysing the benefits or disadvantages of privatisation, and indeed it could be questioned whether it should be the basis at all, it is necessary to recognise that this clash does exist. We must, therefore, start with some discussion of it.

Essential to this discussion is a view on what role the State should play in society. There are two opposing doctrines. As Tarschys⁽²⁾ has pointed out one doctrine, with its roots in early liberal philosophy, looks on government essentially as a burden on society. It finds all the creative forces in the market-place and regards the State chiefly as an obstacle to economic progress. This view was summarised by Jeremy Bentham as follows:

"The request which agriculture, manufactures and commerce present to governments is modest and reasonable as that which Diogenes made to Alexander 'Stand out of my sunshine'. We have no need of favour – we require only a secure and open path." ⁽³⁾

The opposing view is that based on 19th century idealist philosophy with its conviction that the State is a moral system superimposed on the disorder of nature and that the mission of government is to bring order and justice to an unjust world. The State, according to this view, has to provide social justice. It has to make up for market failure. It is a forger of national unity and social conscience and through its spending on communications, education and defence, it provides the necessary preconditions for an industrial economy. It is a benign influence without which the market economy could not operate successfully. When the market fails to produce the socially desired results, the State has a right and indeed a duty to act. That action can take the form of the ownership of productive assets. At its extreme, the State should under this approach own all productive assets, or at least the "commanding heights" of the economy.

I mention these opposing doctrines because in the debate on privatisation it is difficult for those who join in the battle to avoid shouting war-cries which incline more towards one side than the other. At the same time it is possible to approach the question in a more pragmatic way. The very fact that, as I mentioned at the beginning of my remarks, countries with widely – different political systems have been privatising, shows that considerations other than

ideology can play a part. The Economist in a recent issue⁽⁴⁾ commenting on Mr Gorbachev's policy of "perestroika" remarked that "Reagan's America and Thatcher's Britain have also had their 'restructuring'", meaning that the introduction of limited forms of private enterprise in some centrally planned economies differs from the retrenchment of State involvement in mixed economies mainly in terms of degree rather than essence

4 ARGUMENTS FOR AND AGAINST PRIVATISATION

Other speakers will develop the arguments for and against privatisation. I shall, therefore, content myself with a brief summary of these arguments.

Advocates of privatisation claim substantial benefits as a result of the freedom of action which a transfer from public ownership is said to promote.

- (a) They claim as their principal economic argument that State participation in the market place has a negative and distorting influence. State ownership of productive enterprises is incompatible with a fully free market in that such enterprises are inevitably constrained in their actions by political considerations. On the other hand, the removal of an enterprise from the constraints imposed by public ownership facilitates, it is contended, better management and increased efficiency. Greater speed and flexibility in decision-making is possible without the necessity for constant reference to Departments of State or to the Government. Management is enabled to concentrate on the primary task of achieving profitability for its private shareholders, without the constraints imposed by Government macro-economic or political considerations, unrelated to the primary function of the company in question.
- (b) It is further contended that a transfer to private ownership provides companies with opportunities for further development by means of funding secured in the financial markets, which might not be possible in the State sector, if national budgetary considerations precluded the financing of such developments by the Exchequer.
- (c) Some advocates of privatisation have suggested that the privatisation of State companies promotes greater and wider share ownership in the community at large, and that property ownership of this kind by more citizens strengthens democracy.
- (d) The sale of shares to employees, sometimes by means of preferential equity offers, is said to increase the sense of employee involvement in the concern and to act as a stimulus to improved performance on the part of the employees and, consequently, the firm.

Opponents of privatisation, in response to the arguments advanced by its supporters, make the following points:

- (a) They reject the notion that the operation of the free market leads automatically to the optimum economic outturn. Far less, they contend,

does it lead to social equality The only way in which these very desirable goals can be achieved is by means of State intervention Otherwise the profit motive will hold centre stage

- (b) They argue that potential purchasers in the private sector will only be interested in those State concerns which are at present profitable and will leave the State with those companies which will continue to be a drain on its resources Furthermore, such private investors will reap the benefit of the considerable amount of taxpayers' money which over the years has been injected into the State sector In many instances further – and in some cases substantial – amounts of State funds need to be provided in order to restructure the finances of State bodies prior to their sale Privatisation is therefore seen as a means of bringing profit to the few at the expense of the community
- (c) The availability of the State sector as a tool of Government micro-economic and social policy is seen as a positive feature by those who oppose privatisation Fears have been expressed that a privatised State body would give less attention to community interests, notably in the social area, if profit-oriented market forces were to determine its operation An important aspect of this would be that of employment Opponents of privatisation have argued that this aspect would not be given its due importance should a State enterprise be privatised
- (d) Opponents of privatisation have argued that, if State ownership imposes restrictions on the efficient operation of enterprises in the State sector, a change of ownership, with its attendant dangers, is not necessary to remedy the situation These weaknesses can be addressed by examining the nature of the constraints and dealing with them while retaining State ownership They point out that the OECD has commented that frequently it is Government *policy*, rather than ownership per se, which explains a significant part of the weaknesses of State enterprises ⁽⁵⁾

5 PRIVATISATION AND MONOPOLIES

The question of monopoly is one which must be addressed in any consideration of privatisation Hemming and Mansoor⁽⁶⁾ themselves advocates of privatisation, have warned that there is limited scope for privatising “natural monopolies” Economists who are neither for nor against privatisation per se argue that, if a State monopoly is privatised, steps must be taken to insure that there is competition in its product market The operations of two large monopolies recently privatised in the UK (British Telecom and British Gas) have been the subject of considerable criticism How to generate competition is currently exercising the minds of those involved in the forthcoming privatisation of the electricity industry in the UK The State,

however, faces a dilemma on the question of monopoly since the value of an enterprise to potential purchasers can depend significantly on the extent of monopoly power it is allowed to retain

6 PRIVATISATION RECEIPTS

An important consideration in any assessment of privatisation is the revenue which accrues to the national Exchequer on foot of asset sales. This is one of the factors advanced in support of their case by supporters of privatisation. While the immediate cash benefit is of a 'once off' nature in the case of each transaction, the possibility of future Exchequer outgoings, or the assumption of contingent liabilities on foot of State guarantees in respect of the body in question, is also removed. So too, of course, is the possibility of Exchequer dividends, although in practice these have been small here and in some cases non-existent. The impact of sales receipts would, of course, depend both on their level and the manner in which they are employed.

7 PRIVATISATION EXPERIENCE TO DATE

Is it possible to learn lessons from the effects of privatisation abroad? The empirical evidence available to date is not conclusive. While, for instance, some privatised companies in the UK have performed very well, a number of these were already doing well beforehand. Furthermore, other companies which have remained in State ownership, such as British Steel, have also improved their performance.

On the question of greater efficiency a recent article by Millward⁽⁷⁾ provides an interesting survey of the literature on the comparative performance of public and private ownership. He acknowledges the difficulty in specifying appropriate performance criteria to compare efficiency levels. His summary conclusion seems to be that there is no general evidence to support the view that managerial efficiency is significantly less in publicly-owned firms. However, most of the firms covered in the study were concerned with the public provision of goods or services at a price to the consumer, where even in a fully publicly owned concern in the market sector there would be some input from market conditions.

8 THE IRISH COMMERCIAL STATE SECTOR

If a policy of privatisation were to be considered in this country, what scope exists for it? The first point to be made is that the State commercial sector is very large here. Essentially we are talking about some 20 or so bodies who between them employ nearly 75,000 people and whose fixed assets exceed £4 billion⁽⁸⁾. These bodies have had, and continue to have, a considerable impact on the Irish economy. Their privatisation, were such a step to be taken, would therefore be a matter of some considerable significance, not only for the bodies concerned but for the economy generally. The commercial

State sector in Ireland has existed almost since the foundation of the State and over the years has grown to such an extent that it has become, as it were, an established feature of the Irish economic, and indeed, political landscape

While the State commercial sector and the State sector generally has a high ratio to GNP here, its growth has not been for the ideological reasons which have provided the basis for the programmes for nationalisation in the UK and elsewhere in Europe. In the UK many industries were nationalised in the years after the Second World War on principles established by Herbert Morrison – the so-called “Morrisonian Model”⁽⁹⁾ – which included the creation of statutory monopolies in many of the sectors involved. In Ireland the motivation for establishing State industries was different. John O’Hagan argues convincingly that the creation of State-sponsored bodies in this country has mainly been the result of “individual responses to specific situations, intentions being primarily pragmatic”⁽¹⁰⁾

The gradual build-up of the State sector in Ireland may be seen as part of the effort of successive governments to find new instruments of policy in grappling with the perennial problems of developing the country’s infrastructure, creating enough new jobs to stem emigration and closing the income differential between ourselves and our main trading partners. It was never the expressed intention to supplant viable private sector activity by governmental agencies. There was no grand design for a “socialised” economy. As the former Taoiseach, the late Sean Lemass, put it

“State financed industries have been set up only where considerations of national policy were involved or where the projects were beyond the scope of or unlikely to be undertaken by, private enterprise.”⁽¹¹⁾

Indeed, as I am sure you are well aware, it has been argued (for example by Bristow⁽¹²⁾) that the very absence of an integrated strategic approach to the establishment of Irish public sector organisations is central to the problems which emerged, especially over the last decade.

It is interesting to note that the pattern of developments in Ireland has been followed by newly-industrialising countries across the world, regardless of whether they are right-wing or left-wing regimes or liberal or military administrations. Aylen⁽¹³⁾ has pointed out

“Although some countries consciously choose State enterprise, many others have State enterprise thrust upon them. In the absence of alternative backers, governments are often forced to sponsor new ventures in capital-intensive sectors.”

9 PERFORMANCE OF COMMERCIAL STATE BODIES

Just as in the private sector, State bodies in Ireland have had to contend with the problems which have affected all of the world’s economies in recent years

Like the private sector, they have dealt with these problems with varying degrees of success. On the whole, however, while financial performances have fluctuated, the trend in results over recent years have been positive. However, in considering the performance of the commercial State sector the assistance which has been provided by the Exchequer, either directly or indirectly through loan guarantees, cannot be ignored. Many hundreds of millions of pounds were provided either as equity finance for capital reconstruction and investment or as current subventions. Outstanding State guarantees to the commercial State sector exceed £4 billion. It is, I appreciate, difficult to generalise about the commercial State sector having regard to the diversity of activities and objectives involved. However, even if one accepts that some of the Exchequer's input has had a social dimension and that conventional financial analysis may not provide a complete picture of the contribution made by some bodies to the broader public welfare, it is obvious that the level of Exchequer support provided heretofore cannot continue. While the Government has indicated that the commercial State sector will continue to have a role to play in the development of the Irish economy, it has stressed the necessity for State companies to conduct their affairs in a strictly commercial fashion. The Exchequer will not and cannot afford to underwrite the failure of any company to do so, or to finance the mistakes of management. Further, the ability of the Exchequer to inject equity, even when it is commercially justifiable, is, for the foreseeable future, likely to be extremely limited.

One way of dealing with the problems of the State sector is the concept of the joint venture. The notion of joint State/private sector involvement is far from a new one – we already have examples here in Ireland and there are many others worldwide. Probably the most notable of recent times is the formation by NET/ICI of a joint company to operate the fertiliser manufacturing facilities of both in Ireland. The Government has given its full support to this concept and has pledged to encourage, where appropriate, the potential which exists for new joint ventures between public and private sectors.

10 CONCLUSION

The question of privatisation of State assets is a live issue in many countries and a debate in this country on the topic is therefore timely. I have not in this paper attempted to strike a balance between the pros and cons of privatisation but have confined myself to listing some of the factors for consideration. At the end of the day, decisions to privatise or not to privatise are political ones but I would hope that as a result of this symposium some pragmatic conclusions will be identified which will help to influence such decisions.

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