

If privatisation is the answer, what was the question?

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The government has announced plans to “partially privatise” three electricity SOEs and Solid Energy and increase the private ownership of Air New Zealand.

It is privatising the work account of ACC by opening it to private competition.

It is entering into “Private-Public Partnerships” (PPPs) in schools and prisons and is considering them in hospitals, courts and elsewhere.

This presentation gives reasons why it is important to oppose another round of privatisation.

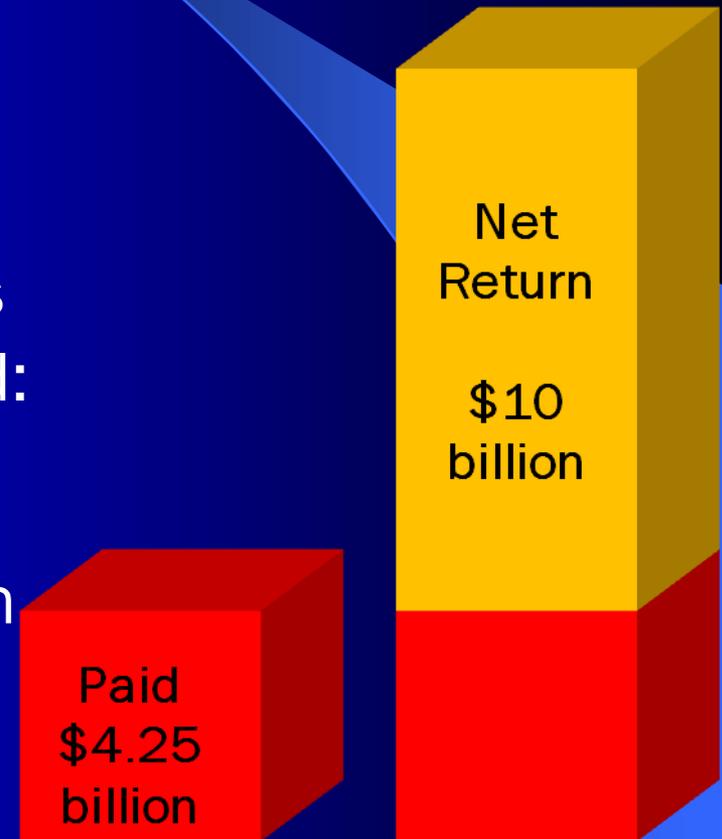
Appalling experience

- ✘ **New Zealand Rail, Air New Zealand**
 - Failed and had to be bought back by government
- ✘ **Telecom**
 - See below
- ✘ **Banks – BNZ, Postbank**
 - Had to recreate Kiwibank, still gaps in financial market
- ✘ **Government Printing Office**
 - Sold far below value – subsidy to start Graham Hart's empire
- ✘ **Radio New Zealand commercial stations**
 - Commercial radio now dominated by two overseas companies
- ✘ **Electricity – Contact Energy, Trustpower, local network operators**
 - Continued price rises, insufficient generating capacity
- ✘ **Housing Corporation mortgages**
 - Many home owners disadvantaged
- ✘ **And many more**

Example: Telecom

- x Privatised for \$4.25 billion, 1990
- x New owners sold out from 1997 making capital gains and dividends of \$10 billion
- x Paid out most of its profits in dividends
- x About three-quarters go overseas
- x Failed to reinvest, e.g. broadband: public now paying
- x Laid off thousands of workers, undermined union representation
- x Resisted competition every step

How the new owners benefited



Why did they do it?

- ✗ We were told in the 1980s and 1990s: “to pay off debt” (Government debt was very high in the 1980s)

In fact –

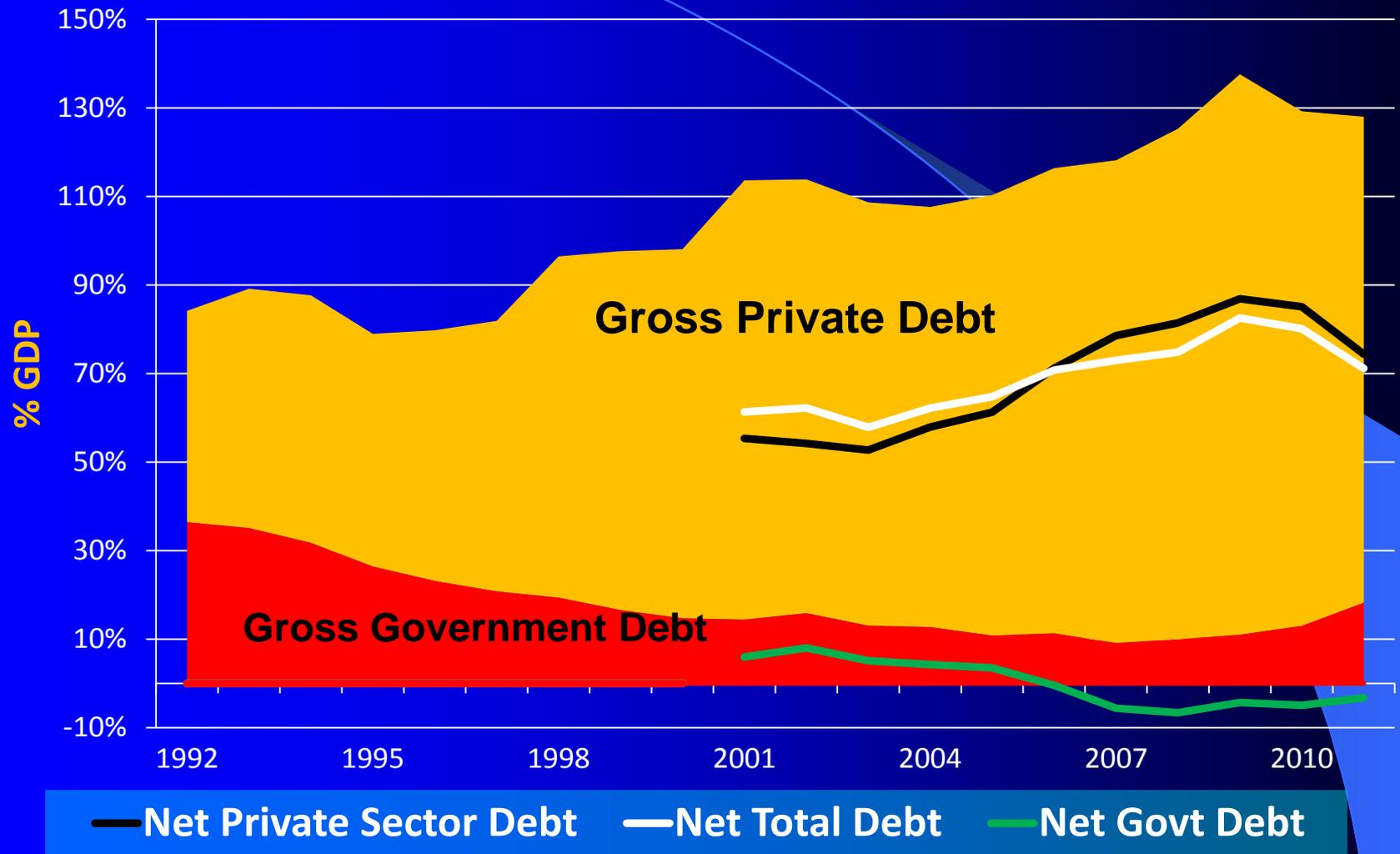
- ✗ Roger Douglas (1993):

“I am not sure we were right to use the argument that we should privatise to quit debt. We knew it was a poor argument, but we probably felt it was the easiest to use politically.”

Why did they do it?

- x Richard Prebble (1990):
 - asset sales should not be for the purpose of repaying debt, but because he was "sceptical about the ability of any government to run its business well".
- x In other words, the reason is ideological
- x It just moved government debt to private debt

Overseas Debt as percent of GDP 1992-2011

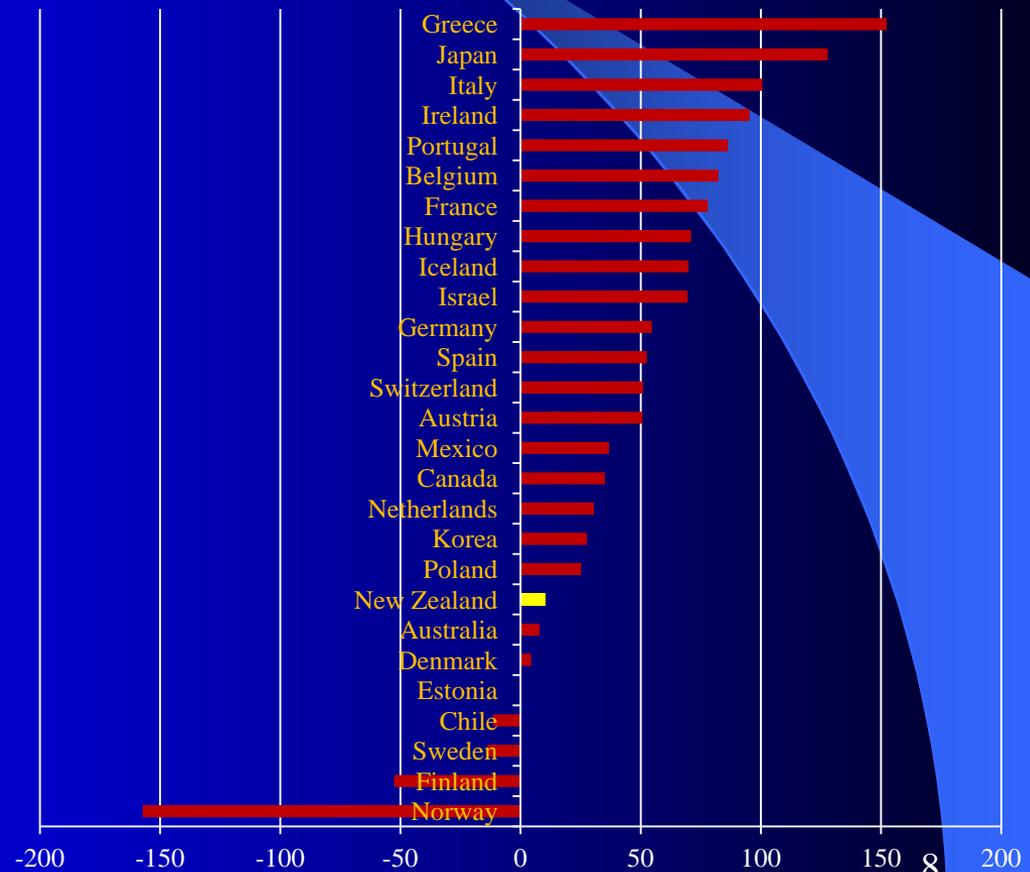


The debt situation

- ✗ Government debt very low compared to other high income countries
- ✗ Even at its likely peak, will be below average
- ✗ Just over half of it is owed overseas – net, none of it

Net Government Debt as % GDP for OECD countries

Source: IMF, April 2011



The debt situation

- ✗ But *total* overseas debt is very high and has been since the 1990s – two decades of neglect
- ✗ In net terms, all private debt. About 80% is bank debt.
- ✗ On top of high overseas ownership of companies
- ✗ Borrowing to pay the interest and dividends

Will selling off public assets help?

- ✗ Raises funds to pay off government debt or pay for spending that would otherwise have to be borrowed
- ✗ But on that logic we should sell up everything
- ✗ *The real question is the public benefits they provide*
- ✗ The ones that are easily sold are probably bringing us greater returns than the cost of debt

Will selling off public assets help?

- ✘ If they sell for a high price, then watch out for price increases and downgraded services
- ✘ Even raising \$5-7 billion would barely dent total overseas debt of \$250 billion – and then only if sold overseas
- ✘ If sold overseas, just swaps one liability (debt) for another (overseas ownership of a company)
- ✘ There are other alternatives

If not to pay off debt, what for?

Argument: Government has no business being in ...” (fill in the gap – rail, airlines, electricity, banking...)

But publicly owned assets have many benefits including

✓ Preventing profiteering in important services which are a monopoly or close to it

e.g. electricity, Kiwibank, water, post

✓ Ensuring essential services are provided fairly and affordably

e.g. water, waste water, social welfare, superannuation

✓ Providing security of services

e.g. electricity, coastal shipping, public transport

If not to pay off debt, what for?

Argument: Government has no business being in ...” (fill in the gap – rail, airlines, electricity, banking...)

But publicly owned assets have many benefits including

✓ Social solidarity, and services which are more efficient to provide universally

e.g. ACC, superannuation, social welfare

✓ Providing services, innovation, long term development when the private sector fails to

e.g. public transport, roading, Air NZ, rail, Solid Energy

✓ Providing additional income to the government

e.g. Electricity, Kiwibank, Solid Energy, Air NZ

If not to pay off debt, what for?

Argument: “the private sector is more efficient”

- ✗ But many public operations are highly efficient – e.g.
 - ✓ **Electricity companies** – why else is the sharemarket interested? Compete effectively against private
 - ✓ **Solid Energy** – competes internationally, innovates, safety
 - ✓ **ACC** - shown to be one of the most efficient in the world
 - ✓ **Air New Zealand** – private ownership crashed it; now one of the world’s few profitable airlines
 - ✓ **New Zealand Post** – sells advice internationally
 - ✓ **Kiwibank** – leads banks in service and interest rates

If not to pay off debt, what for?

Argument: “the private sector is more efficient”

- ✘ International studies tell the same story: efficiency is about good management, not private or public ownership
- ✘ Anyway – profitability is not all that matters
- ✘ If they strengthen our public services and infrastructure, they can make the rest of the country more efficient

If not to pay off debt, what for?

Argument: “the private sector has easy access to finance, but the government doesn’t want to raise taxes”

✘ A weak argument

- Used for “PPPs”
- Government can borrow more cheaply
- Government can borrow more easily following the financial crisis
- PPPs effectively an expensive form of debt
- Privileged if government must cut spending

If not to pay off debt, what for?

Argument: “the private sector has easy access to finance, but the government doesn’t want to raise taxes”

✘ A weak argument

- International experience (e.g. UK, US) shows they can be hugely wasteful
- Complex – cost of London underground PPP £455 million just to set up the PPP! Great for lawyers etc
- They give the private operator a 30 year monopoly
- Cut staff and pay to cut costs
- Tax levels should be a democratic decision

If not to pay off debt, what for?

Argument: “partial privatisation is in the interests of deepening New Zealand’s weak capital markets and providing safe investment opportunities, for ‘mum and dad’ investors. Share market scrutiny will improve the management of these firms.”

In fact

- ✗ Shares will end up overseas owned (remember local electricity networks)
 - In many cases, international trade agreements force us to accept this
- ✗ Share market scrutiny is about financials only – for example not about price fixing
 - It encourages short term thinking, deadly for quality infrastructure and public services
- ✗ Even Treasury is sceptical about this argument
- ✗ It won’t help savings – just moves money from private to public sector

If not to pay off debt, what for?

Argument: “partial privatisation is in the interests of deepening New Zealand’s weak capital markets and providing safe investment opportunities, for ‘mum and dad’ investors. Share market scrutiny will improve the management of these firms.”

- ✗ All this will undermine the SOEs’ ability to work in the public interest
- ✗ Example: electricity companies
 - Electricity system should balance:
security of supply, environmental impact, low prices
 - Focus on profits doesn’t allow balance – problem with current set-up
 - Private shareholders will demand higher dividends
 - A high sale price will increase this pressure
 - The flexibility that comes from full public ownership will disappear
 - So more price rises, shortages, and reliance on fossil fuels

It won't stop there...

ACC

- ✗ “competition in the Work Account” – i.e. allowing employers to take private work accident insurance
- ✗ Workers will bear cost – like US private medical insurance
- ✗ Minister Nick Smith 13 October: if re-elected will also look at same for non-work and motor vehicle accidents
- ✗ Likely to be cheaper for big employers, more expensive for the country – if it “succeeds”

Price Waterhouse Coopers Report on ACC, 2008 (quotes):

- ✓ “The ACC under its current implementation structure performs as well or better than most other schemes we can observe around the world.”
- ✓ “ACC offers broader coverage than every other scheme around the world”.

It won't stop there...

Price Waterhouse Coopers Report on ACC, 2008 (quotes):

- ✓ “The ACC under its current implementation structure performs as well or better than most other schemes we can observe around the world.”
- ✓ “ACC offers broader coverage than every other scheme around the world”. For example:
 - ✓ “There are to our knowledge no other ACC-comparable schemes for the self-employed, ... nor for coverage of workers outside work.”
 - ✓ “When compared with other no-fault motor vehicle injury schemes, ACC has relatively high benefit levels but very low levels of overall cost.”
- ✓ “Comparisons elsewhere indicate that privately underwritten workers compensation schemes as a group have higher levels of administrative cost on average than government monopoly schemes, likely driven the need to cover profit margins and marketing expenses.”
- ✓ “These observations lead us to form a moderately strong view that a government monopoly is the best observable mechanism for implementing the ACC employers account.”

It won't stop there...

PPPs - Prisons

- ✘ Private management of Mt Eden
 - ✘ Run by Serco (U.K. – schools, hospitals, prisons, nuclear weapons establishment)
 - ✘ Corrections Association: when previously privately run, cost \$7,072 per prisoner more than the public system comparing like with like.
- ✘ Wiri PPP – new prison
 - ✘ Is it needed?
 - ✘ Will cost \$11 million on consultants and \$10 million on internal costs before building starts
 - ✘ Cost more than public one – “costs are high because it was New Zealand's first PPP prison”

It won't stop there...

PPPs - Prisons

- ✘ Evidence from U.K. is private contractors save costs by paying lower wages and lowering staffing levels, less skilled staff
- ✘ But evidence internationally is that privately run prisons are neither lower cost nor better run

It won't stop there...

PPPs – Schools

- ✗ Hobsonville: primary and secondary: 25 year contract
- ✗ But doesn't pay if only one – single PPP unlikely to be viable
- ✗ Government cost of just *negotiating* contract up to \$6 million – about the cost of a 400 pupil primary school
- ✗ Inflexible in operators' favour: what if
 - ✗ roll numbers are less than anticipated (e.g. earthquake?) (“Balmoral High School in Belfast closed six years after it was built, when pupil numbers halved. However, the Northern Ireland Department of Education owes the contractor £370,000 a year for the next 18 years”)
 - ✗ educational needs change requiring changes to buildings

It won't stop there...

PPPs – Schools

- ✘ Operators charge for out of hours use of buildings
- ✘ Cutting wages: “We assume a PPP contractor will improve the efficiency of caretaking and cleaning by 20 percent including through contracting out and stronger labour bargaining”
- ✘ “In this case the saving is relatively small – officials estimate it would be about 1 per cent over the contract period.” – Bill English

It won't stop there...

And there's more...

- ✘ PPPs likely in court buildings, roads, hospitals, other public services
- ✘ Case managing 16-17 year olds on benefits will be by private contractors
- ✘ Increasing use of consultants in government departments
- ✘ Contracting out of backroom services...

Say no to privatisation – in all its forms