Executive summary

This publication contains a range of views on aspects of privatisation and contracting-out in Australia. While some of the views expressed differ, there are also a number of areas of agreement.

Lessons learnt from privatisation

- Most economic commentators agree that privatisation is beneficial when it results in private firms operating in a competitive market. However the public is skeptical of the benefits of privatisation.
- The crux of the privatisation debate now lies in those areas where the market may not achieve the desired objectives. In some areas (including parts of the transport sector, the transmission and distribution business in the energy sector and some other infrastructure services) competition may not be viable, so private ownership will mean a regulated monopoly provider. In other areas (such as pollution management, waste disposal and health services) externalities may mean private incentives are not aligned with public welfare, even if the market is competitive.
- The case for private ownership of natural monopoly assets remains contentious.
- Government intervention is required in those parts of the economy where there is a conflict between the profit-maximising behaviour of private firms and social welfare. In these areas governments can intervene through a variety of combinations of regulation and ownership. Privatisation is about designing an optimal mix of ownership and regulation to achieve the best outcomes for society. Private ownership with regulation is one option. In other cases, government ownership (possibly combined with contracts for private sector operation) may better achieve society's objectives.
- Governments should not be allowed to use privatisation as an expedient source of funds. A formal alteration to government accounting is required so that privatisation revenues cannot be used to prop up a government budget.

Privatisation is about designing an optimal mix of ownership and regulation to achieve the best outcomes for society. Private ownership with regulation is one option. In other cases, government ownership ... may better achieve society's objectives.

What is the future of privatisation?

- There are still major government assets which could be sold, but many of these assets support services which are not fully financially viable—some may be loss making (such as public transport), others may be priced to meet equity objectives (such as health and education).
- These sectors are more likely to involve private sector participation through long-term contracts, rather than divestment. But governments will need to improve their skills in allocating finance, and designing and managing contracts, to attract private capital into these sectors. There is a need to improve contract management skills within the public sector.
- One of the key elements of any contracting exercise is the allocation of risk. While risk should be allocated to the party best able to bear it, government bears the residual risk—if a contract for the provision of, say, public transport fails, the government is obliged to ensure the service continues and to bear the higher costs. This is sharply different to the way risk is born in privatised assets. However, risk can be transferred on the financing, procurement and provision of services, provided contracts are designed to achieve this. Contract management is critical—and does not come naturally to government.

- Most contributors to this volume do not see reversing privatisation as an option. However, among the alternative views is a suggestion that some natural monopoly assets are best held by governments.

Public accountability

- Accountability mechanisms which apply to competitive entities formerly in the public sector have broadly been accepted by the community. For example, the privatised Commonwealth Bank, Qantas and ANL are all subject to the accountability arrangements (some of which are quite extensive) applying to those industries. But when a monopoly business activity is privatised, the public applies a more stringent accountability test, reflected, for example, in the public opposition to the privatisation of New South Wales electricity generation plants, and the sale of the remaining government holdings in Telstra. Governments are grappling with the need for a new or extended accountability model for such privatisations.

When a monopoly business activity is privatised ... governments are grappling with the need for a new or extended accountability model.

Impact on employment, consumers and public opinion

- Although the overall impact of privatisation in competitive markets has been beneficial, unions argue that it has contributed to growing job insecurity and widening income distribution in Australia. Privatisation has been one of many factors driving the growth of part-time, casual and temporary employment.
- From a consumer perspective, the overall verdict on privatisation is one of mixed success, with insufficient attention to consumer outcomes.
- Privatised industries argue there have been service improvements, although removing cross-subsidies has sometimes reduced consumer price benefits.
- National public opinion surveys indicate little support for privatisation among the general public.

Politics of privatisation

- A number of cultural and political factors have constrained privatisation in Australia, including:
  - a high degree of national identity, often equated with the national interest, attached to many GBEs;
  - a public perception that many Australian GBEs have performed relatively well, which has weakened the efficiency case for privatisation;
  - the three-year electoral cycle which impinges on the long lead times and careful management required by government for successful privatisation programs;
  - the Senate voting system which has allowed minority parties and independents to hold the balance of power since the early 1980s, giving rise to major clashes of mandates, including over privatisation;
  - a general lack of public confidence in the independence and effectiveness of the regulatory system.