

# SALE Time

*The privatisation debate revived with a vengeance in July. The Left has responded by digging in around the ALP platform. But Peter Baldwin argues that defending the status quo isn't good enough. The public sector isn't set in stone, and a new role for public enterprises is needed.*

**F**or many years a significant section of the Australian labour movement regarded public ownership as an inherently 'good thing', justifiable on grounds of ideological principle alone. For a variety of reasons, not least the recent developments in Eastern Europe, such a position no longer has any credibility. There is now widespread acceptance that public ownership should be argued for in terms of the specific practical benefits it confers.

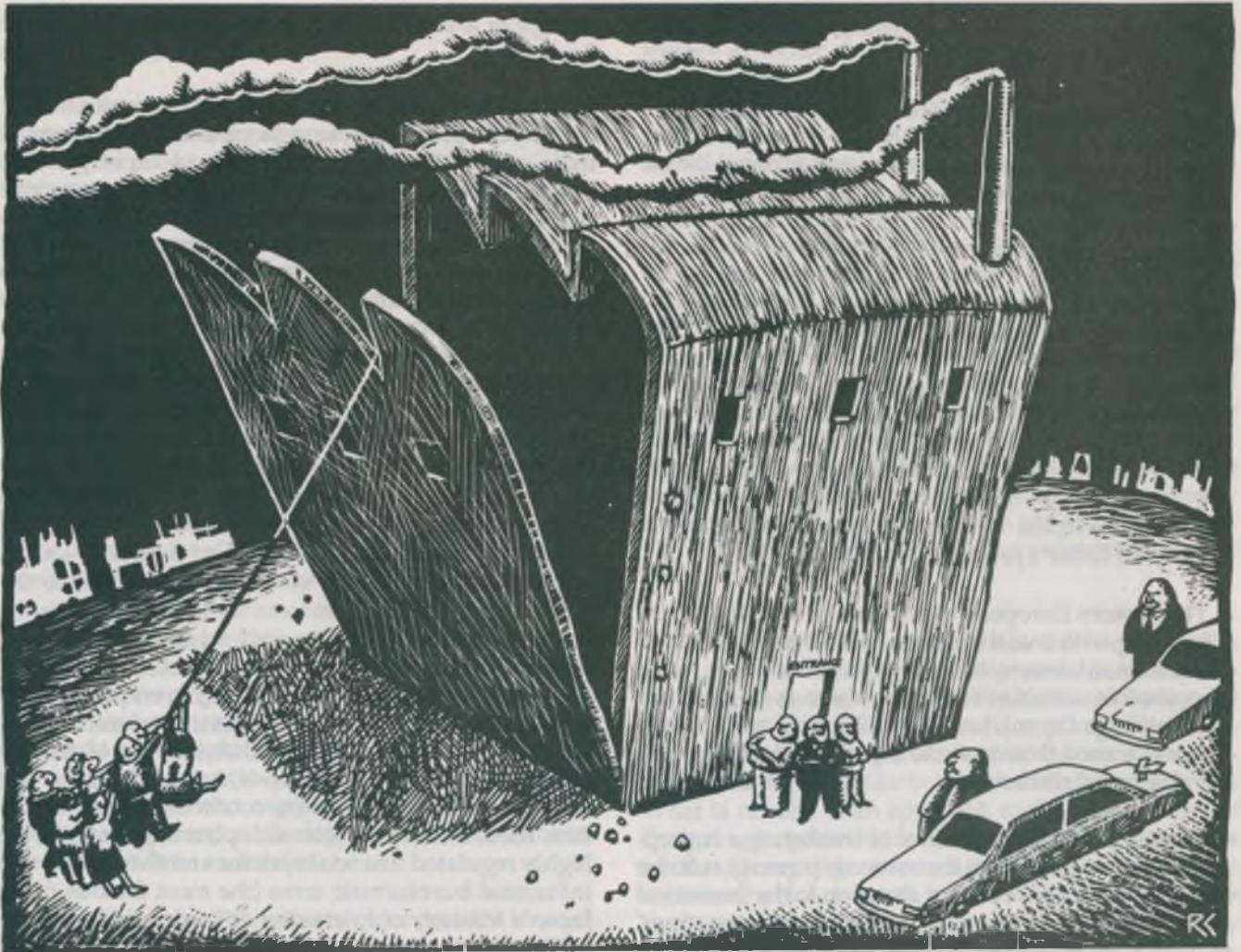
In Labor's present privatisation debate, the defenders of public enterprise have argued that public ownership of business enterprises is necessary for the achievement of broader goals, including the successful restructuring of the Australian economy. However, the difficulty with this is that the government's present 'portfolio' of business enterprises has grown up in response to a variety of historical circumstances, some of which are relevant to those goals, others less so. This article argues that an active public enterprise sector does have an important role to play but that defenders of public enterprise need to 'restructure' their own priorities in the current debate.

The privatisation debate is the latest episode in a long-standing controversy within the Labor movement

over the extent of public sector involvement in the economy. This has been reflected in a number of major debates about the interpretation of the party's 'socialisation objective'. Traditionally, this argument has formed the core of the ideological division between Left and Right in the ALP. To this day, the ALP remains nominally committed to the 'democratic socialisation of industry, production, distribution and exchange, to the extent necessary to eliminate exploitation and other anti-social features in these fields'.

A perennial complaint of the Labor Left has been that successive ALP governments have disregarded the 'objective', preferring to stake their claim to government on the provision of a more efficient and equitable approach to the management of a capitalist economy. The Labor Right has countered that the 'objective' has long been an anachronism bearing little real relationship to the tasks and priorities of Labor in government. It is seen as a piece of ideological baggage, the discarding of which would be an important priority were it not for the fact that it is now generally seen as a dead letter anyway.

It seems incongruous to some that a Labor Treasurer in a government nominally committed to socialism should proudly proclaim his success in bringing about an unprecedented reduction in the ratio of Commonwealth spending to Gross Domestic Product. In response to this sort of criticism, Treasurer Keating



argues that he is fashioning a new Labor 'tradition' to replace an obsolete Labor ideology founded on outdated and discredited ideas. This involves the explicit embrace of market mechanisms as the prime agency of beneficial economic change.

Paul Keating is not, of course, alone in his celebration of the market. Ante Markovic, the Prime Minister of 'communist' Yugoslavia, is reported to have said in a recent speech that: "I consider the open-market economy to be an ultimate achievement of mankind for which no alternative has yet been found." These sorts of sentiments are a natural response to the massive systemic crises which have brought down the bureaucratic command economies of Eastern Europe and have had an impact on debate on economic policy within the ALP.

If, it has been argued, most of these countries now see virtue in introducing large elements of a private market economy, then surely there must be something wrong with trying to shift Australian policy in the reverse direction? In this context, the Labor Left has been portrayed as desperately holding out against a historic tide, as wanting to travel down a 'time tunnel' to the past.

A typical Left response has been to say that the Eastern European experience is the outcome of a particular historical context, and is of no relevance to a genuinely democratic and accountable socialism of the sort advocated by the Labor Left in Australia. But it is not so easy. The marxist authors of a recent major study of Eastern European societies have argued that the Western Left must come to grips with the Eastern European experience, and that:

...the attempts to treat it exclusively or basically in terms of a backward national history seems to us, especially when undertaken by radicals in either East or West, to be a form of escapism - escapism from the fact that these societies, however tragic this may be, do belong to the international history of that social and intellectual movement which bears the name of socialism.<sup>1</sup>

The failure of Eastern European 'socialism' is undoubtedly a major factor in the virtual disappearance from contemporary Australian debate of serious proposals to extend public ownership. It is noteworthy that *Australia Reconstructed*, endorsed by the ACTU as its blueprint for long-term economic change, contains no reference to such a notion. This is particularly surprising given that the document was largely the

product of people whose background is with the Left of the trade union movement.

More generally, the 1980s were a pretty dismal decade for the Western Left. It was a period during which the benefits of small government, deregulation and minimally constrained markets came to be accepted by governments of various nominal ideological persuasions. The collapse in the 1980s of the French Socialist government's early program based on a highly distributive reflation of the economy and large scale nationalisation of banks and productive enterprise was widely seen as the death-knell of the type of socialism traditionally espoused by the Western democratic Left. It is in this sort of environment that privatisation, made more palatable by Margaret Thatcher's concept of millions of ordinary people participating in a 'shareholding democracy', has gained currency in some unexpected circles. It forms the larger backdrop to Australian Labor's privatisation debate.

The Eastern European experience (where shortages, coinciding with massive waste, have been a recurrent phenomenon) demonstrates that there is a whole range of economic activities for which there is no practical alternative to the market as an allocative mechanism. There is a need then to avoid equating socialism with the absence of markets.

But the presence or absence of markets is a conceptually distinct issue from the ownership question. Some socialist writers have drawn attention to the theoretical possibility of a 'community of producer co-operatives' in which each co-operative is wholly owned by its workforce, but interacts with the rest of the economy through the market. However, the recent unfortunate experience of 'self-managed socialism' in Yugoslavia has cast considerable doubt on the practicality of such a system.

The thrust of present Australian federal government policy is to 'corporatise' the Government Business Enterprises (GBEs) so as to make them more market-responsive, hoping thereby to capture most of the benefits thought to flow from privatisation. The weight of evidence is that government-owned enterprises are perfectly capable of functioning well in a market environment, given reasonable freedom from bureaucratic constraints. Most surveys conclude that there is little systematic evidence that private ownership, in itself, leads to greater efficiency, though the flexibility of the Australian GBEs continues to suffer from bureaucratic impediments.

In endorsing a major role for the market, it is necessary not to go too far in abandoning economic planning and intervention. When we look at those economies around the world which are generally held up as models of successful economic development, we generally find a high level of planning and intervention,

though of a different sort to that applied in Eastern Europe.

Japan and the Newly Industrialised Countries (NICs) of East Asia provide some of the clearest illustrations of these points. During their periods of rapid growth, these countries (with Hong Kong the sole exception) made extensive use of interventionist policies designed to ensure the development of those areas of the economy thought to be particularly important to their emergence as significant economic powers. There was an emphasis on ensuring the implementation of long-term plans geared to product and process innovation and penetration of new markets, with a preparedness to sacrifice short-term profitability to these goals. These economies differ so much from the free market ideal that the author of the definitive history of Japan's post-war economic development, Chalmers Johnson, has argued that they should be seen as a distinct form of political economy, the Capitalist Developmental State, different to both free-market capitalism and socialism.

Some Western commentaries (including the Garnaut report), in seeking to explain the East Asian countries' economic performance, have tended to emphasise cultural features, particularly attitudes to work and saving. Johnson maintains, however, that the role of the 'institutions of high speed growth' that comprise the 'developmental state' in these countries is more important. These include the economic planning agencies, the highly regulated financial systems and the pervasively influential bureaucratic arms (the most famous being Japan's Ministry of International Trade and Industry - MITI) that, together, provide a powerful armoury of instruments for interventionist economic policies.

These have enabled a significant degree of economic planning. How do we explain the 'success' of planning in these countries compared to its failure in Eastern Europe? Johnson describes systems marked by a pragmatic, empirical approach to planning as 'plan-rational'. Japan and the newly industrialised countries of East Asia fall into this category. These seek to harness and direct market forces, rather than discard them. Johnson contrasts these with both the 'market-rational' systems of the Anglo-Saxon world, and the 'plan ideological' systems of the Soviet bloc. "In the Soviet Union and its dependencies and emulators, state ownership of the means of production, state planning and bureaucratic goal-setting are not rational means to a development goal...they are fundamental values in themselves, not to be challenged by evidence of either inefficiency or ineffectiveness...".

The value of looking at 'plan-rational' economies such as those of the countries of East Asia, is that they provide a necessary antidote to the current Australian infatuation with untrammelled market forces. There is little evidence from economic history to suggest that a dependence on market forces alone will produce the

structural transformation the Australian economy needs.

At the beginning of this article reference was made to federal government arguments in support of privatisation. Before proceeding to consider priorities for GBEs, it is necessary to look at these arguments. In making a case for privatisation, senior government ministers have relied overwhelmingly on the supposed pressure on government outlays that would result were GBEs to remain in full public ownership. Without privatisation, so the argument goes, the government will need to spend hundreds of millions of dollars over the next few years to strengthen the 'capital base' of the enterprises concerned. This is said to be necessary in order that the GBEs maintain commercially acceptable 'gearing ratios' (the ratio of debt to equity).

If this argument is valid, it could be used to justify an endless series of further privatisations. But is it really the case that selling equity in GBEs eases the fiscal constraint facing governments? The fact is that nobody who has looked at this argument seriously - not academic economists, not financial journalists, not economists employed by global financial institutions, nor, for that matter, Paul Keating, really accords the argument any weight. Unless there is some efficiency advantage inherent in private ownership (and the senior ministers who support privatisation have explicitly rejected any such claim), there is no genuine fiscal benefit from such sales.

Before turning to this point in more detail, it is worth noting that there is some controversy about the amounts of new equity capital required by the GBEs. Central to this controversy has been the question of why government-owned enterprises (with either an explicit or implicit government guarantee) should need similar gearing ratios to private enterprises. However, while there is disagreement about the amounts involved, it is generally conceded that significant new equity should be provided over the next few years of the GBEs are to compete effectively.

Despite its superficial plausibility, the 'fiscal' case for privatisation is fundamentally flawed. It amounts to saying that, if the government is forced to spend money from Budget outlays on new capital for the GBEs, there will be that much less for other, arguably higher priority, areas of government expenditure. Why? Because, without cuts in other areas, paying for the capital injections would raise the Commonwealth's borrowing requirement, thereby placing an additional call on national savings and forcing up interest rates.

But essentially the same effects would arise from raising the necessary funds for new capital by selling equity on the Australian capital market. There would be the same call on savings, and the same upward pressure on interest rates (if you subscribe to the 'crowding out'

theory favoured by many economists). The only difference would be that, instead of a given value of Commonwealth bonds being offered for sale, the same value of equities in the GBEs would be sold. The change in the overall mix between debt and equity securities on issue would have fairly slight economic effects.

Taking the longer view, selling additional government bonds increases the long-term burden of debt-servicing on the Commonwealth government. However, if the government avoids this by selling equity in GBEs, it forgoes the future dividend income stream it would have otherwise received from the GBEs. All these effects should more or less cancel out, unless there is good reason to suppose that private owners will run the enterprises significantly more efficiently. There is a further problem with the fiscal case for privatisation. The capital market may systematically undervalue the equities on issue, as happened with UK privatisations under Thatcher. In the latter case, the government comes out a clear loser.

There is no serious dispute that the fiscal benefits from privatisation are essentially cosmetic. The problem arises from our economically irrational Budgetary accounting conventions. These lump together Commonwealth transactions of a capital nature with recurrent spending in calculating the overall deficit/surplus. What is needed is an approach to the presentation of Budget aggregates that focusses on the OECD's concept of the 'general government' deficit/surplus. This measure, which is used for most international comparisons of fiscal policy, is a much more economically meaningful measure of the 'stance' of fiscal policy. Unlike our present conventions, which treat asset sales as 'negative outlays', it treats them as financing transactions which do not affect the surplus/deficit. This eliminates the artificial incentive to privatise.

Two British Treasury economists have argued that, rather than focussing on the level of debt, governments should develop a balance sheet approach which seeks to maintain public sector net worth (estimated as the replacement value of the fixed capital stock less financial liabilities). This would eliminate the bias against public investment inherent in the present approach.

The earlier sections of this article argued that there is a good case for the Australian government pursuing more interventionist policies to aid the restructuring of the Australian economy, and that public business enterprise should have a significant role to play.

Australia needs a GBE sector that is capable of evolving to meet changing social, economic and environmental priorities. Consistent with this aim, it could be expected that, over time, the government would want to increase its involvement in some areas of activity, and decrease it in others. This sort of perspective - one of a

## THE INAUGURAL AUSTRALIAN CULTURAL STUDIES CONFERENCE

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### *PRACTICES AND POSITIONS*

The School of Humanities & Applied Social Sciences, University of Western Sydney, Nepean will host an international conference on Cultural Studies and Cultural Production. The Conference will also serve as the inaugural meeting for the establishment of an Australian Cultural Studies Association.

The conference will provide a forum for the renewal of cultural studies in Australia, promote debate on the politics of culture in Australia and will host performances, films and videos with the aim of highlighting cultural production.

Proposals for papers and other forms of presentation are invited on the following topics: Cultural Production, Cultural Policy, Critical Theory, Cultural Studies as an Academic Enterprise, Cultural Industries, Popular Culture, Ethnographic and Indigenous Studies, Cultural Studies and Post Modernism, Feminism and Cultural Studies.

Proposals for papers and panels should include a one-page abstract by August 30, 1990. A preliminary program will be published in September, 1990.

Enquiries and proposals for papers to:

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selective approach by government - has so far scarcely figured in Labor's privatisation debate.

Any attempt to switch the focus of this debate will be doomed while the existing Budgetary accounting conventions governing the treatment of Commonwealth capital transactions remain in force. As discussed earlier, these create an artificial incentive to privatise in order to reap essentially cosmetic fiscal 'benefits'. In this context, the apparently inflexible response of the anti-privatisation forces is reasonable: until this problem is addressed, agreement to notions of flexibility and change could be seen as support for a fire sale of public enterprises.

Freed from the conceptual encumbrance of the existing Budgetary conventions, it would be possible to have a rational debate about how the various GBEs might contribute to the task of economic restructuring. It would also be possible to contemplate whole new areas of activity for public enterprise, a welcome change from the current obsession with public sector contraction.

Consideration of the future of the GBE sector should emphasise the contribution it could make to overcoming the various forms of 'market failure' discussed earlier. There should be particular stress on the short-termism endemic to Australian economic decision-making, and on environmental and other 'externalities'. The debate should have more to do with the strategic potential of GBEs than with their size.

Such an approach would imply far more attention being given to maintaining and strengthening the role of a GBE like the Australian Industries Development Corporation (AIDC). This is just the sort of flexible instrument that is required for a more interventionist approach to economic restructuring. It has already played an important role in a number of industry sectoral plans (e.g. Heavy Engineering, and Textiles, Clothing and Footwear).

It reflects a deficient sense of priorities that the part-privatisation of the AIDC - a result of its recent restructuring - received little attention when the matter was considered at the 1988 ALP National Conference. The AIDC was seen as a 'side-show' when compared to the main debate about the future of the two publicly-owned airlines. Yet the potential role for the AIDC in economic restructuring is much more significant, and the case for maintaining undiluted public ownership is far stronger.

The AIDC's main role is to compensate for the Australian capital markets' failure to invest sufficiently in relatively risky and/or long-term investments. It needs to be insulated from the short-term pressures of the Australian private equity market. There should be more thought given to how it and the other govern-

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ment-owned financial institutions like the Commonwealth Banking Group (which includes the Commonwealth Development Bank) can be harnessed in a co-ordinated effort to overcome the deficiencies of the Australian capital market.

Judgments about how the GBEs capital requirements should be met need to be informed by a clear conception of the role we expect each GBE to perform. In some cases (e.g. the airlines) we want the enterprise to act in an essentially market-conforming way - to be a good competitor. In other cases (e.g. the AIDC) the main rationale for the existence of the GBE is to correct market failure. Clearly these two types warrant separate consideration if even minority private equity participation is likely to make the enterprise concerned more responsive to market signals.

This implies that undiluted public ownership and control should be a high priority for enterprises we expect to be 'market-diverging' in their behaviour. On the other hand, some of the 'market-conforming' type GBEs would benefit from being able to enhance their capital structures relatively quickly and flexibly, a goal difficult to reconcile with government Budgetary processes. In such cases, some freedom to access the

private capital market, perhaps using 'mezzanine' or non-voting financing which avoids any dilution of public control, would be appropriate.<sup>2</sup>

There has been some discussion recently about how the huge sums accumulating in the superannuation funds can contribute to economic restructuring. The only substantive proposal put forward so far has been the ACTU's National Development Fund (NDF) concept, under which the super funds would be required to make available 20% of their future income for investments geared to industry restructuring. The proposal was strongly criticised by the funds, and has never formed a serious part of the ACTU's negotiation agenda with the government (if it had been, there would have been far more concern about the future of the AIDC, which was to have been the NDF's manager). Nonetheless, this is an issue of great significance deserving further exploration, and this should include consideration of a role for the funds as suppliers of equity capital to an enlarged and revitalised GBE sector.

We should in some cases be prepared to facilitate appropriately structured employee-share ownership schemes in the GBE sector, particularly the smaller enterprises. To be acceptable, such proposals would have to be carefully designed to ensure a genuine transfer of economic power to the workforce. There needs to be a structure which prevents the worker shareholdings being sold off, and which allows the workforce to exercise their power as shareholders collectively.

This should form part of a more general effort to foster the development of an economically significant co-operative sector as an alternative to conventional private and state ownership. The attraction of this is that, as well as allowing a more democratic and decentralised distribution of economic power, there is now clear evidence that the co-operative mode of ownership can lead to significantly better enterprise performance through increased workforce commitment.

To conclude, debate about the future of the GBE sector needs to focus on how the various enterprises can be used in the pursuit of Labor's social, economic and environmental goals, along with the other instruments available to government.

1. Ferenc Feher, Agnes Heller and Gyorgy Markus, *Dictatorship Over Needs - An Analysis of Soviet Societies*, Basil Blackwell, Oxford, 1983, p. 43. The first chapter, 'Eastern European Societies and the Western Left' looks at this question in some detail.

2. Mezzanine finance has some of the properties of equity, but does not confer the politically crucial element of control associated with ordinary equity.

PETER BALDWIN is the federal Minister for Employment and Education Services and chair of the Caucus Industry Committee. A much longer version of this article was originally published in the *Current Affairs Bulletin*.