Privatisation: the right policy, the wrong reason?

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Media discussions of privatisation in Ireland too often revolve around how much money such asset sales will raise for the exchequer. Finance officials naturally salivate at the prospect of yet more revenue, and the taxpayer may well hope for a dividend in the form of tax cuts. However, concentrating on this 'benefit' of state asset sales can be misleading, for a number of reasons.

First, little revenue of any type in Ireland is earmarked in a formal way for particular purposes. You might just as well think of your next tax cut as being paid for from the extra tax revenue at the Galway Races as from the proceeds of the Cablelink or Telecom sales. Second, the net effect on the public accounts of a privatisation should be neutral. In principle, the capital receipt of the proceeds of the sale is matched pound for pound by a decline in state assets when ownership is transferred.

If this is the case, a fair question from opponents of privatisation is: 'if a state company is an asset at the time of sale, why sell it at all?'

Part of the reason is that some state companies have become marketable only because of the credible threat of privatisation. So the state might gain, in that it sells an asset which would otherwise be a liability. Putting a number on the resulting estimated net gain to the exchequer is probably not worth the computer time involved.

A third reason for not stressing the public finance angle is that policy makers may face a conflict between raising revenue from privatisations and the desire

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to promote competition. The higher share price of a privatised monopoly reflects the capital value of its privileged position, with consumers paying in higher prices and lower quality. In contrast, liberalising a market, in addition to privatisation, could yield benefits to the consumer, but reduces the revenue for the exchequer.

Cash-strapped British governments in the 1980s sometimes opted for more revenue and less competition, contrary to their declared economic liberalism. In contrast, our own government is very well placed now, when the public coffers are bulging, to proceed with plans to sell state owned enterprises with competition as the key policy objective.

The impact on the public finances should be put to one side and more attention devoted to the real rationale for what has become a quiet revo-lution in Irish economic policy. As the cynic has it, most economic policies arise from the need to undo the damage caused by the last ones.

From the view point of the state, little public purpose was served in the past by burdening itself with a set of conflicting economic roles; as owner of assets, lender of first resort, employer, purchaser of outputs and regulator of prices and quality. Those roles burden not only the state but state-run companies, in for example being obliged to set prices not just according to commercial criteria but also to serve income distribution goals—failing to serve either purpose.

The state is trying to disentangle itself from these conflicts in a variety of ways. For example, 'public service contracts' give the state the option of targeting its interventions, buying those services the community deems desirable and which the market would not provide.

The process is more transparent than implicit cross-subsidies, and has no necessary tendency towards less public expenditure, just towards more appropriate public expenditure.

Also, the prospect of 'Public Private Partnerships', by which the risk of certain state projects is shared with the private sector, may be a very appropriate innovation in meeting our future public capital requirements when EU funds dry up.

On the competition policy front, it used to be the case that Irish governments never met a derogation from the EU they didn't like, whereas now we are waiving our let-out from telecoms liberalisation, recognising this as a strategic necessity in the information age.

More widely, but in part following the Telecom Éireann model, the notion of employee participation in privatisations and in restructuring (as in the ESB) has been a distinctive innovation.

It might be argued that such self-conscious social partnership has dragged out the process of change needlessly; advocates would say it facilitates that process, in neutralising potential social conflicts. Whatever the balance of that argument, it is certainly delightful to see public sector unions arguing, not over the iniquities of 'casino capitalism' and 'fat cats', but over their slice of the share-owning democracy through various share option schemes. Nothing is too good for the working classes.

The unheralded result is that the public sector is innovating, and experimenting, and (cautiously) taking some risks. Some of the experiments in moving away from state ownership will fail: some worker-shareholders will find that 'the value of shares can go down as well as up', some companies in liberalised sectors may not survive the intense competitive pressures of Euroland, some flotations may turn out to be priced too high or too low.

How policymakers react to these possibilities will show whether Ireland's shift towards the market is more apparent than real. Some doubts should remain. As a recent study by two economists, Dr Frank Barry (UCD) and Dr Francis O'Toole (TCD) pointed out, there is a public misperception of competition policy as job-destroying, and industrial policy (state-backed investment) as job-friendly.

More than that, through centralised wage agreements for the whole economy, the government still implicitly stands behind the most basic commercial decision as an instrument of income distribution policy.

Does it also implicitly guarantee the jobs of former state employees, as it appears to do for those in the multinational sector, going into political overdrive whenever the international chip market trembles? Focusing only on the impact of state assets on the public purse obscures the truly strategic issues. Are we seeing, then, that unusual event in Irish economic policy—the right policy, for the wrong reasons?

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