

Privatisation: "more a *political*
than an *economic act*"

The quote is from Savas (2000).

Privatisation

- Narrow view: generally noticed
 - Selling off activities (eg railways, Air NZ)
 - Selling off assets (eg land)
- Broader view: not necessarily noticed
 - Privatisation: "reducing the role of government or increasing the role of the other institutions of society in producing goods and services and in owning property" (Savas, 2000, p. 3).
 - Other institutions include markets (and capital markets)

Various privatisation techniques

- Active techniques
 - Divestment
 - Sale; Donation; Liquidation
 - Delegation (limitation of government)
 - Contract; Franchise; Grant; Voucher; Mandate; User charges; PPPs
- Passive techniques
 - Displacement (or load-shedding)
 - Default; Withdrawal; Deregulation
- NZ's reformed systems support all of these techniques

Driving forces

- **Ideological:** “free” markets, smaller, less powerful government;
- **Commercial:** more business, privatize government-owned operations and assets, redirect government spending to businesses;
- **Populist:** better society, increased reliance on community and community support;
- **Pragmatic:** better government, more cost-effective public services, prudent privatisation
- Because ideological views unpopular, need for euphemisms, and to claim other objectives:
 - contracting out will make services more cost-effective;
 - Withdrawal will increase role of the community

Theoretical ideas about political systems

- Election cycle “problem”:
 - Desire to make changes that remain effective under subsequent governments
- Solution: Embed the changes
 - (New Economics of Organisation)
 - Bring in changes at detailed level – less noticeable, less likely to attract attention
 - Various books published on privatisation

Some “how to” publications

- “Privatizing the public sector: how to shrink the government” (Savas, 1982)
- “Privatization: the key to better government”, (Savas, 1987)
- “Bureaucrats in business: the economics and politics of government ownership” (World Bank, 1995)
- “Reinventing government: the entrepreneurial spirit is transforming the public sector” (Osborne & Gaebler, 1992)
- “Banishing bureaucracy: the five strategies for reinventing government” (Osborne & Plaistrik, 1997)
- “Privatization and public private partnerships”, (Savas, 2000)

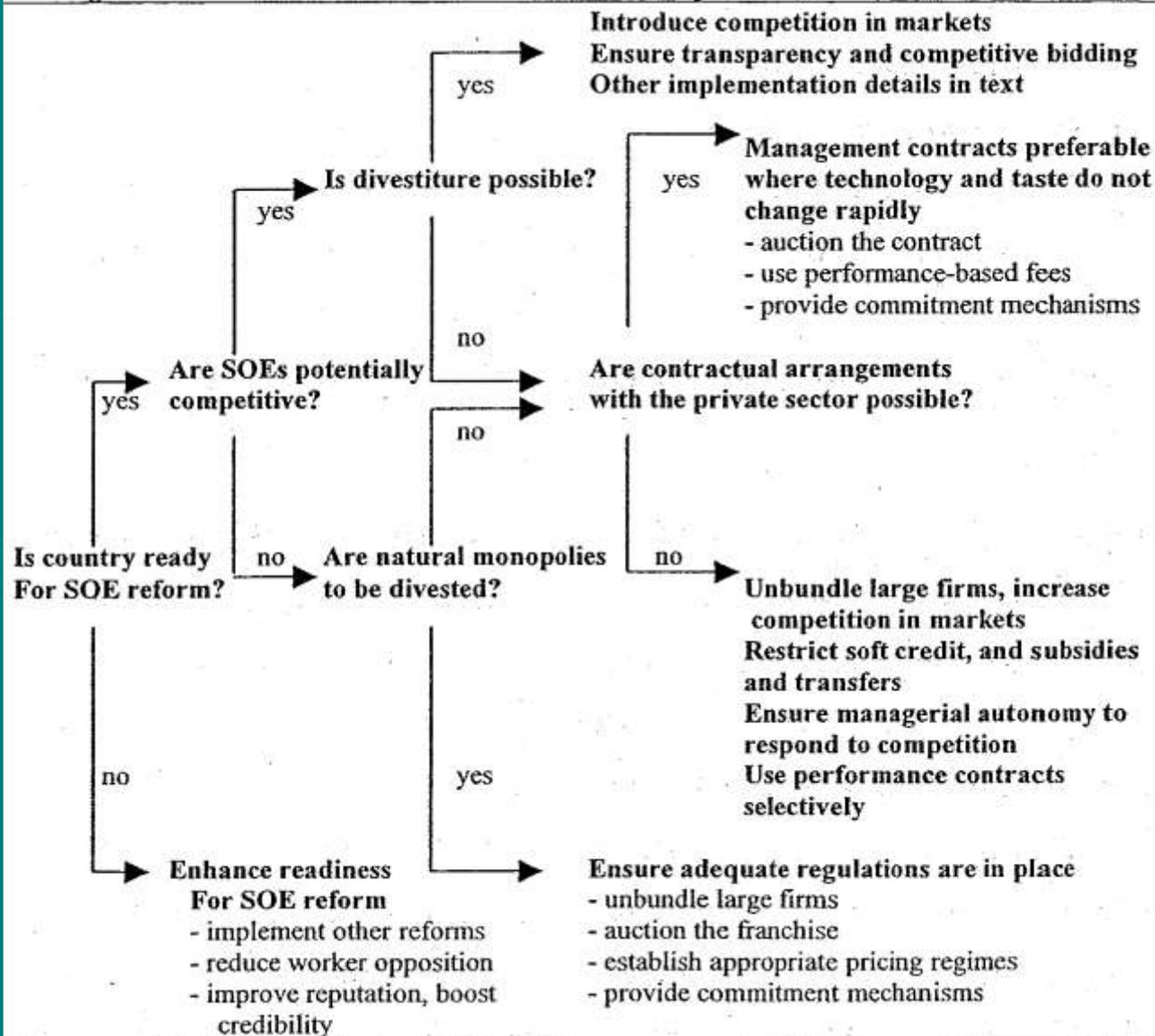
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- These techniques are “mutually reinforcing”

Divestment

- Active divestment
- Sale/disposal of assets –
 - Queen Mary Hospital property, Hanmer?;
Hillmorton hospital property;
- Sale/disposal of group of activities –
 - SOEs: Telecom, power stations; government printing office
 - See World Bank decision tree for SOE reform

Figure 1.1 A decision tree for state-owned enterprise reform (from World Bank, 1995)



Delegation techniques

- limitation of government arrangements: contracting and (temporary) competition, user charges.
- Purchaser-provider split in legislation
 - Government as “purchaser” of “outputs” from providers which may, or may not be government bodies
 - “departments were encouraged by central agencies to imagine that their department did not exist, and they were assigned a budget to acquire the same services through contracts” (Graham Scott, 2001, p.179).

Load-shedding

- Active: stop certain services
- Passive: Run services down to poor standard - encourages markets. Avoids “bruising” ideological battles.
 - eg spending caps, budget cuts, revenue cuts, revenue limitations, balanced budgets.
- Criticism in UK that such reforms have “manufactured disasters.”
 - Think about Cave Creek, ChCh Hospital Emergency Dept inquiry 1998 etc

Cave Creek

- Judge Noble: “Pre-eminent” secondary cause of “substantive systemic failure” in a “government department that was “malformed at birth”; and that while a lack of money was not the cause of its collapse, the platform had been “conceived and built within a culture developed to do more with less.”
- “The many people affected ... were all let down by faults in the process of government departmental reform” (Commission of Inquiry, 1995, cited in Gregory, 1998, *A New Zealand Tragedy: problems of political responsibility*).

Problem with system reform

- Generally, systems are designed to do something.
 - New Zealand's reformed public sector systems are built around various privatisation techniques.
 - The idea was to reduce government to a role as legislator and funder.
 - Consistent with pressures to privatise from international treaties
- Systems designed for one purpose are not necessarily good for much else.

Finance and privatisation

- Financial liberalisation accompanied privatising public sector reforms
 - Early days of privatisation driven by fears about public debt and need to privatise to reduce debt.
 - NZ Debt Management Office created within Treasury (1988)
 - Adopted an “asset and liability” framework to manage public debt
 - Try to match characteristics of liabilities and assets
 - No longer debt reduction; now need for “Future Funds”, ie build-up of financial assets. Effectively increasing investment of public money in financial markets

Debt management framework

- A policy that governments support and develop financial market is consistent with World Bank/IMF recommendations but seldom discussed publicly. In 2004, the NZDMO reported its debt management framework assists two policy objectives:
 - “To enhance the development of the domestic capital market, including a derivatives market; and
 - To reduce the cost of capital for private sector borrowers by improving New Zealand’s sovereign creditworthiness”
- Seldom discussed in context of privatisation, but it should be.

Privatisation:

- Privatisation is indeed "more a *political* than an *economic* act"
- Suggestions:
 - It is valid to demand debate on privatising developments
 - Ensure the meaning of terms of debate are understood. Beware of slippery terms, especially in policy announcements. Eg, do policy announcements about "privatisation" refer to the narrower or to the broader interpretation?
 - Treat sceptically financial information that makes a case for privatisation and/or for accumulating financial assets for investment in capital markets