



**CENTRE FOR RESEARCH
IN PUBLIC
SECTOR MANAGEMENT**

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Canberra ACT 2601

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The Secretary
Standing Committee on Transport and Regional Services
House of Representatives
Canberra

Dear Secretary

Inquiry into Privatisation of Regional Infrastructure and Government Business Enterprises

I am enclosing several papers resulting from research conducted in this Centre that may be of relevance to your Committee in its inquiry.

We have been actively involved for many years in researching issues relating to the management of government business enterprises (mostly referred to outside Australia as public enterprises or state-owned enterprises (SOEs)) and to privatisation.

This work has related to general developments in Australia, with connections to relevant research in other countries through active involvement in international bodies such as the International Association of Schools and Institutes of Administration (IASIA) and the Eastern Regional Organization for Public Administration (EROPA). It has not focused particularly on impacts on rural/regional communities, but I believe it does offer some insights which may be helpful in your present inquiry. In particular, see my comments below on community service obligations (CSOs).

A progression of relevant concerns

Both domestically and internationally, there seems to have been a kind of natural progression in mainline government thinking and the ensuing reform programs, and this has been reflected in the directions of our research.

- *First*, there were concerted efforts to improve the quality of management in GBEs and the ways they related to central governments, reflected in the IASIA teaching institutions by a strong interest in educating GBE managers influenced by a conviction that neither the existing public administration nor (private) business schools took the special needs of that group seriously.

- *Second*, there was a swing to the view that the best course was to abandon GBEs altogether, leading to research concern with the motives for and outcomes of the privatising movement that was extending so widely throughout the world.
- *Third*, within the research community, there has been a growing realisation that so often what is being done in the name of privatisation is producing, not a clear movement from the public to the private sector, but rather a great variety of public-private mixes, and that this development is in need of serious study in order to understand it better.

Most recently, there has been a growing fascination with "public-private partnership". However, I believe this term is being used somewhat indiscriminately and often inappropriately. The mixes that are emerging are sometimes far from being genuine partnerships.

Judgments about privatisation

The enclosed book *Public Enterprise Divestment: Australian Case Studies* is the principal outcome of some research undertaken with Professor Jim McMaster and Dr Fran Collyer under a grant from the Australian Research Council, aiming at understanding the motives for and outcomes of privatising action in nine Australian enterprises in the late 1980s and earlier 1990s. Thus we missed some of the later and larger "privatisations", but this was done deliberately so that there was sufficient time post-privatisation to enable us to judge the effects of the change.

We are sometimes asked what view we have formed on whether privatisation is a "good" or a "bad" thing. But any realistic answer to that question has to be guarded, for two main reasons.

- *First*: it is rare that ownership change is the only change being experienced by the enterprise in question, since that change is so often accompanied by other significant changes in the policy framework affecting the enterprise. It is thus virtually impossible to isolate the factor of ownership change in judging why performance has improved (or deteriorated), and nearly always possible to argue that performance change may have occurred even if the ownership factor had remained constant.
- *Second*: in most cases of privatisation there are both winners and losers. Some will benefit from the change, others will find their circumstances disadvantaged by it. (This finding is matched by studies in many parts of the world – in this, Australia is certainly not distinctive).

Some may judge this to be a "cop out". But, for us, the realistic response to the question whether privatisation is good or bad is to say that it is good for some and bad for others, and that it is through the political process that those gains and losses are actualised. No one understood this better than Mrs Thatcher, whose privatisation model had such great effect throughout the world.

Impact on rural infrastructure

As already indicated, none of this work has related specifically to impacts on rural/regional communities. But I have no difficulty whatever in accepting the proposition that private business is driven primarily by the hunt for profits, and that the best profits are likely to be realised in areas of dense population which maximise profit-earning transactions.

The Indian scholar VV Ramanadham pointed out long ago that public enterprise had both a human face and a business face – it was possible to make trade-offs between commercial and social objectives within the public enterprise framework, and in our developmental period in Australia we understood that that was appropriate public policy. At least from the rural perspective, it is unfortunate that much economic theorising of the more recent reform period has taught that the lower rates of return (and often enough the losses that had to be made good by compensatory payments to enterprise managements) were indications of inefficiency. This is not to say that there were no inefficiencies, but rather that factors like internal cross-subsidising were not necessarily their causes.

Given that the developmental phase is past, it is important that we design public policies that will remove some of the disadvantages that come to sparsely populated areas because of their inability to generate incomes sufficient to satisfy the now-mostly private owners of many service delivery systems. In my view, that must involve some element of cross-subsidisation or special funding for the discharge of community service obligations (CSOs). The Universal Service Obligation (USO) in the case of the telecommunications industry is a case in point.

The issue of CSOs

The idea of the CSO has become increasingly unpopular, but I believe it needs to be vigorously restated. It may be appropriate to point out here that Australia was a pioneer in developing such systems, as my 1966 article in the journal *Public Administration* ("The Recoup Concept in Public Enterprise", vol.44 no.4) indicated. Our inventiveness here was usually overlooked as governments the world over sought to reform involved management systems in the 1970s and '80s; nonetheless the basic idea was often built into contracts, memorandums of understanding, etc, between governments and the relevant service-delivery organisations.

Significant problems were apparent in the earlier Australian experience, and the World Bank tried to deal with similar problems elsewhere in its important report *Bureaucrats in Business: The Economics and Politics of Government Ownership* (1995). Most notably:

- It is difficult to measure the relevant costs with any degree of precision.
- Governments generally dislike the idea of making payments to compensate the service-delivery organisations, especially when they are public sector organisations, for costs incurred in CSO-type activity, and often renege on their obligations (see World Bank report around p.127).

This World Bank report received far too little attention by governments that got fascinated by the idea of removing service-delivery functions from the public sector altogether!

Also the frequent misapplication of the word "subsidy" (ie the assumption that it was the managements of the service-delivery organisations that were being subsidised) led too easily to the view that they were inefficient and needed shoring up to survive. It would have been more appropriate to acknowledge that the subsidies went to the population groups being supported (eg for living in the less densely populated areas), and that the service-delivery organisations were simply being compensated for acting as the vehicles for this subsidising. As some management experts pointed out, that assumption was very debilitating for the managements and staffs involved; too often it became a self-fulfilling prophesy.

In short, I believe the matter of CSOs deserves our renewed attention, regardless of whether the service-delivery organisations are in the public or the private sector, and that serious effort should be given to overcoming the problems which have made it such a difficult instrument to use in the past.



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ATTACHMENT TO SUBMISSION NO. 9

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