

## **Privatisation – ALP Fringe Conference, Sydney Town Hall, July 30, 2017**

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- Privatisation as the go-to policy response by states globally began in the late 1970s.
- In this period there have been literally thousands of privatisations around the world – many thousands more if PPPs, and the contracting out of state services are included
- This 40-year experience of extensive privatisation provides ample evidence to evaluate its benefits and shortcomings
- Has privatization delivered its promised benefits? Has it been worth it?
- ‘Privatization is a more complex subject than simple ideologues—including the advocates of the Washington Consensus—thought a decade ago. The theoretical presumption is, at best, much weaker than they thought. At the same time, the theoretical and practical problems in privatization are greater than they thought. There have been major government failures, and it is these that have contributed to the demand for privatization. But there have also been major market failures, especially in areas where market and social incentives may markedly differ. And in these areas, ensuring that the private sector acts in accordance with social needs and desires may not be easy.’
  - Joseph Stiglitz, ‘Foreword’, *Privatization: Successes and Failures*, Columbia University Press, 2008.
- This is probably the kindest light in which privatization could reasonably be viewed.

### **The problems with privatization**

- A range of persistent and recurring problems have been identified with privatisations
1. **Inequity** – markets are premised upon inequality. This is central to those who defend markets – the possibility of unequal outcomes is what gives them their dynamism and what creates incentives to invest. But this is a problem when privatization involves essential services as it so often does. On top of this experience shows that private providers tend to cherry pick the least costly clients.

The only way to mitigate this is for governments to mandate that through legislation, contract, monitoring, enforcement and financial subsidies and inducements that private providers fulfill a social and equity role. **But doing this runs counter to the rationale for privatization** in the first place as it creates new layers of bureaucracy, complex rules, intrudes on private sector efficiency and increases government expenditure

2. **Privatisations do not erode the presence of the state within markets or the economy** – this is contrary to one of the oft-stated justifications of privatization by its advocates
3. **Incomplete contracts.** Contracts governing what private providers should do and how they must act and the incentives they respond to are never complete. They cannot account for the multitude of actions a provider will undertake. This can lead to perverse incentives and a failure to align private incentives with social goals
4. **Privatisation leads to new transaction costs for ‘consumers’** of the newly privatized services. These are the costs of choice, the costs of choosing. The problems here are those of asymmetrical information and the search costs for consumers – i.e. they may not wish to choose and they may not be able to determine which choices will be most beneficial to them.
5. **Risk is transferred to citizens** rather than it being socialized.
6. **Privatisation is often accompanied by de-unionisation** and/or an erosion of the conditions, rights and/or real pay of workers in the sector.
7. **In many cases, privatizations do not lead to competitive markets** nor to private providers being disciplined by consumer choices. Often privatization results in private oligopolies and/or limited competition for government contracts.
8. **They create arrangements that are highly resistant to change.** Privatisations create material interests in maintaining and extending private forms of provision and state subsidisation of private institutions
9. **Private sector institutions and agents become de-facto policy makers.**
10. **Privatisation leads to a loss of accountability.**
  - Given all of these problems, the ongoing commitment by governments to privatization is nothing short of astounding
  - ...and can probably only be explained by:
    - The ideological commitments of policy makers
    - The desire for short-term injections of funds into state budgets
    - Policy capture by private sector interests
    - As a strategy for de-unionisation