PRIVATISATION: WHAT IS THE AGENDA?

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Discussions of privatisation have been confusing; but in essence the idea is clear. Privatisation is the transfer of the ownership of enterprises (or of the means by which the state currently supplies goods and services) from the public sector to the private sector. Its proponents sometimes treat it as anything which enhances the scope of the market in the maintenance of the social order while reducing that of the state.

The purpose of the paper is to examine several co-existing agendas for the discussion of privatisation. The principal agenda to be examined involves the reasons given for privatisation by its proponents.

The latter part of the paper then briefly suggests four other agendas: a possible secret agenda of the proponents, the agenda of organised capitalism, a democratic socialist agenda and a possible populist agenda.

The Dominant Privatisation Agenda.

Stricter Managerial Accountability

The first conventional argument for privatisation involves accountability and efficiency. The ultimate guarantee of efficiency is said to be that the management of an enterprise should be called to account for its performance. If the only performance that is of concern is financial ("commercial") performance, then the market can do the job, so the argument goes. What is usually meant by "the market" is reliance on the capital market for finance and rivalry in the market for the enterprise's output.[1] Actually the **threat** of rivalry may be a sufficient incentive. The management of an enterprise will be anxious to reduce the price at which it supplies its output, or to increase the quality of the output, if the enterprise is in danger of losing its market (Pirie, 1985: 29; Domberger and Piggott, 1986; Hanke, 1986). By the same token, the threats (a) of takeover and of undersubscription of share issues and (b) of foreclosure by lending institutions will force managements to invest wisely. Thus, there is accountability to "the market" if the enterprise is subject to competition in respect of its output, if it is private and if it is reliant on the capital market.

Proponents of that argument can be accused of being within a world of fantasy. Evidently there is no tendency towards the centralisation of control within an industry, no tendency for the formation of an oligopolistic structure that insulates management decisions from customers' wants. Evidently there is no tendency to attempt to persuade customers to like or at least to be content with what they get. Evidently there are straightforward connections between a corporation's vulnerability to takeover, in particular, and the performances of the specific enterprises it owns (which is patently not the case).

In a non-neoclassical world it is not possible to argue that "the market" systematically enforces the accountability of the management of a corporation for the performance of a specific enterprise (or that it enforces accountability for the performance of the corporation as a whole). The

1 "The introduction of competition into the activities of public enterprises would, in mostcases, be a powerful additional incentive for improving efficiency", according to the secretariat of the Economic Planning Advisory Council (EPAC). Efficiency in Public Trading Enterprises, **Council Paper No.24**, January 1987, EPAC, Canberra.

possibility exists, therefore, that the accountability of the management of a public enterprise to a responsible minister is at least as substantial as is the accountability of a private enterprise to what passes for the market in contemporary capitalist economies.[2]

How then are we to judge comparative efficiency in practice? Comparisons of the managements of different enterprises are fraught with great difficulties. First there are difficulties in comparisons of enterprises pursuing a single, "commercial" objective; and second there are the difficulties of comparing enterprises which are required to pursue different sets of objectives. Third it is nevertheless necessary to concede that there may be real sources of inefficiency in public enterprises. We consider these three issues in turn.

(a) *Profitability as a Measure of Efficiency?*

A private enterprise is supposed to satisfy the capitalists' objective of making profits. There may be competing corporate objectives such as preserving the life of the organisation or maximising the private gain of senior management, but let us ignore them. Even so, the path along which the controllers of the enterprise should proceed is not perfectly clear. It **may** be clear so long as the environment of the enterprise can be taken as given. However, once the environment is considered subject to the control of the enterprise, in some measure, then a well-known dilemma confronts the controllers of the enterprise. How much of the short term profit should be sacrificed to finance strategic moves designed to secure long-term profitability? Only the atomistic enterprise, one so small as to have no impact on its environment, can escape the dilemma. Within neo-classical theory, all enterprises are conveniently assumed to be just so small, in which case the dilemma doesn't occur. Otherwise the objective of making profits is ambiguous.

2 Admittedly that degree of accountability - to the collectivity of the enterprise's workers, to its geographic neighbours, and to the community in general. (The general effects of an enterprise - its impact on the community in general may be quite insufficient - include at least its consumption of non-renewable resources.)

It is possible to submerge the dilemma - but only to submerge it, as we will see -by including the resources devoted to attempting to control the environment with the enterprise's costs and to speak of an average of profits over some period of time. The resources in question are those put into planning, into tying up supplies and customers, into developing superior technologies, and so on.

The profits can be expressed in relation to some measure of the capital advanced to the enterprise and the enterprise may be judged in terms of the resulting rate. The rate of profit may be compared in principle with rates for other enterprises. There are difficulties in choosing the measure of capital for the denominator (shareholders' funds rather than total capital advanced, for example) and how to construct the measure chosen [3] But there is a different realm of difficulties that deserves greater attention because it is commonly only poorly acknowledged. That realm has to do with the capacity of many corporations to control the environments of their enterprises and to misreport the performances of their various enterprises especially where (internal) trading exists between them.

Let us suppose that a comparison is to be made betweentwo enterprises in different industries. Further suppose that each enterprise is dominant within its industry, say in being the major supplier and the owner of the highest grade of raw material. Each enterprise has put certain resources into establishing and maintaining its dominance and counted the value of

3 How, for instance, are shares to be valued, where here is to be a comparison between a private enterprise owned by a corporation listed on the stock exchange and a public enterprise for which only some value for total assets is available? Where recourse has to be made to some value for total assets, is it to be on the basis of historical cost or on the basis of replacement cost (even when the replacement cost has to be calculated by outsiders)? And how consistently across enterprises is depreciation treated? In a multidivisional or multi-enterprise corporation, how are joint costs to be apportioned? All of these are very important difficulties, as the report of the Senate Select Committee on Statutory Authority Financing made clear in 1983: they may even be so important as to make any comparison between enterprises that is based on generally current data a futile exercise. (See Australia, Senate Select Committee on Statutory Authority Financing, Statutory Authorities of the Commonwealth: Financing, Vol.1, **Report**, Sept. 1983, A.G.P.S., Canberra.)

such resources (strategic expenses) in its costs of production. Let us say that because the strategic expenses of one enterprise are higher than the strategic expenses of the other, the profitability of the latter enterprise is significantly higher. Is the performance of the second enterprise to be judged to be superior to that of the first?

The answer must be that no such judgment can be made. The two enterprises are in different environments; the strategic considerations bearing on the maintenance of one enterprise's dominance are different from those bearing on the maintenance of the other's dominance; the moves and the expenses that are necessary in one case are likely to be quite different from those that are necessary in the other case. In other words, there is an essential incommensurability of the performances of enterprises which have some degree of control over their environments and thus undertake strategic expenses, and which need to undertake different levels of strategic expenses to maintain the same degree of control.

There is a second problem that arises in the typical comparison of enterprises which have some control over the environments in which they operate. A common dimension of control is over the prices at which outputs are sold and inputs are bought. Obviously profits are affected by control over prices: in other words, they include some monopoly profits. To some extent, therefore, a comparison of degrees of profitability is a comparison of degrees of monopoly. At the extreme, where each enterprise is the only one in its industry, or where the state sets the price of the enterprise's output, a comparison of performances on the basis of a comparison of degrees of profitability becomes meaningless.

A further problem, commonly associated with an enterprise's having some control of its environment, arises where it is part of a conglomerate or one division of a multi-divisional corporation. In such a case the enterprise's reported profits may bear little relation to the profits it actually generates: the reported profit may simply be set at a level that minimises overall taxation or contributes to the story being told to the purveyors of protection or supports some share trading strategy. The corporation finds it easiest to misreport the profits of the separate divisions if they trade with each other (in which case it can under-invoice and overinvoice); but it anyway has considerable scope to apportion overheads such as research and development expenditure, interest, and public relations expenditure, to the same effect. Cross-subsidisation may be proper business behaviour; but it and all of the other difficulties just mentioned make a comparison between enterprises that are not the atomistic units of the neo-classical theory of the firm a very daunting task, to say the least.

(b) Multiple objectives

The other major problem in judging efficiency is that enterprises pursue multiple objectives. It is a commonplace observation that public enterprises are expected to pursue objectives other than the "commercial" objective of making profits. According to the proponents of the private interest theory of economic regulation, the predominant objective of any public enterprise is likely to be the protection or support of some private interest or other (eg Stigler, 1975: ch.8; Butlin, Barnard and Pincus, 1982). This may indeed be true of some public enterprises. For example a failing private enterprise may be nationalised to avoid certain private consequences of its collapse such as disruption of supply to another industry; a public enterprise may be established ostensibly to compete with the single private enterprise within some industry but actually to legitimate the behaviour of the private enterprise as the subsequent duopolist; la public enterprise may be used to subsidise particular private interests by charging them lower prices for its output than it charges other customers; public enterprises have made private fortunes through malpractice in contracting with construction firms and suppliers. However, an observer more dispassionate than most private interest theorists would note that some public enterprises operate to the advantage of capital in general. public enterprises have kept natural monopolies [4] out of private hands and thus have been capable of keeping to a minimum the quasi-rent component of the price charged for the monopoly's output; public enterprises have assumed risks in certain lines of supply that have discouraged the private sector from investing and have been prepared to wait for returns

4 Where there are constantly increasing returns to scale and hence a strong tendency for only one enterprise to exist.

from slow-maturing investments for much longer than private enterprises could wait; some public enterprises have genuinely monitored their private rivals and enabled the state to regulate the exercise of the power of the particular private corporations in the interests of capital accumulation in general; some public enterprises have enabled nation-states to conserve foreign exchange for the financing of private sector imports in general; public enterprises in key industries and in the provision of infrastructure have made it possible for states to encourage spatial and temporal distributions of the private sector's investment which could well have been in its own interests. Finally, some public enterprises have the responsibility of making certain outputs available for much less than they cost to produce, or more specifically, to ensure that access to some outputs is not dependent on income. This may in turn be of benefit to employers (as when more generally available health services enable the general level of health of the workforce to be improved), and to "the system" (as when schooling inculcates respect for private property), as well as to those individuals and households actually availing themselves of the outputs involved.

This is a very long list of common objectives of public enterprises other than the "commercial" objective of making profits. It makes comparisons of the performance of different public and private sector enterprises exceedingly difficult.

(c) Possible sources of inefficiency

Nothing that has been said to date should be taken to imply that there cannot be inefficiencies in public enterprises. In fact, three possible sources of inefficiency readily come to mind. These are the procedures of management, the practices of workers and features of the organisations which made sense when they were established but have subsequently become anachronisms. Someone will always be found to identify examples of each source in each public enterprise.

Changes in procedures of management are not to be confused with changes in the accountability of management, with which I shall deal shortly. In the terms of the Economic Planning Advisory Council's secretariat and of the proposed policy guidelines for Statutory Authorities and Government Business Enterprises, they concern the relationship between managements of public enterprises and the government, accounting methods, planning and the clear definition of objectives, the monitoring and testing of performance, information gathering and processing, the delegation of operational authority, supervision, etc. (EPAC, 1986; New Zealand Treasury, 1984: ch. 13; Australia Department of Finance, 1986)[5] If these procedures are deficient, the immediate answer is to improve them, along lines such as those suggested by EPAC and the Department of Finance. The form of organisation of a public enterprise may mean that important decisions that are normally the prerogative of management are made by ministerial or departmental staff, that only very restricted sources of financing are available, or that the hiring, promotion and firing of staff can take place only in accordance with totally non-meritocratic principles. Here too the problems can be tackled directly, as the E.P.A.C. secretariat and the Department of Finance have also acknowledged. The problems of management and structure do not seem likely to be any greater in principle than those which McKinsey and Company (management consultants) are frequently called upon to handle in the private sector.

Statements by senior managers of public enterprises to the effect that they believe that the enterprises should be privatised should be treated carefully. As Heald has written: "Management has ... been exposed and vulnerable in an ideological climate in which being 'public' automatically is held to be inferior" (Heald, 1985: 77). More precisely, once public

5 The recent report by the H.V. Evatt Research Centre, **The Capital Funding of Public Enterprise in Australia**, Sydney, March 1988, makes the point that public enterprises have been subjected to a "cash budget mentality" appropriate only (if at all) to spending departments of government, p. 39.

enterprises are portrayed as inefficient, the managers must blame the existence of multiple objectives or the public status of the enterprises to avoid the charge of mismanagement.

It is difficult to know just how different is the problem of "slack work practices" in public enterprises as opposed to "private" enterprises. The usual claim is that the management of public enterprises is too willing to accommodate workers' demands - for longer tea-breaks, site allowances, and so on. It is quite possible that this may be true, especially where the enterprise is subject to myriad governmental controls, where it is expected to pursue numerous and even conflicting objectives and where the management's success or failure in resisting worker's demands makes no appreciable difference to the enterprise's performance. On the other hand, working conditions and wages within all Australian enterprises are variously regulated: work practices in individual enterprises are becoming increasingly subject to (state) legislation (in the areas of industrial health and safety, and sexual discrimination and harassment, for example); and the major portions of the industrial wages of members of Australia's **trade** unions (not enterprise unions) are determined by a federal commission.

A form of privatisation is the "contracting out" of the provision of services to private enterprises, sometimes created by people who were previously providing the services as employees of the state. This raises several questions about the basis of apparent reductions in the costs of the services concerned as a result of such privatisation. For example, how much of any reduction is dependent on the owner's working longer hours with much greater intensity than an employee who is a member of his or her union can be expected to work? How much is due to being able to employ workers who are paid less than their unions have won for similar work but who are not allowed to belong to the unions? How much is due to a better organisation of work because of a lack of demarcation disputes in the absence of unions? How much is due to lower effective tax per unit of the service provided? Obviously a reduction in the cost of providing a service through "contracting out" cannot usefully be attributed to something as general as "greater efficiency."

While it takes a brave person to compare the performances of public and private enterprises, there are plenty who have tried. Many of the attempts up to the end of 1986 have been surveyed and the surveys have been summarised by Domberger and Piggott. (1986: 150, 152, 159). Throughout the detail of their paper there is more than a hint of a philosophic or ideological predisposition towards generally unregulated private enterprise. Nonetheless, their summary of the international evidence is extremely cautious: "Our reading of the international literature is more in line with ... [the view] ... that 'public firms have higher unit cost structures' ... [than with the view that the evidence provides] ... 'no broad support for private enterprise superiority'". But in any case they concede that it is perfectly plausible that any difference could be accounted for by the "non-commercial" objectives which public enterprises are typically directed to pursue. The two authors furthermore claim that "deregulation or liberalisation of the [public enterprise's] market may generate a substantial improvement in public sector performance, without ownership transfer". All in all, this is hardly compelling stuff.

Extending Popular Capitalism

The second widely promulgated argument in favour of privatisation refers to popular capitalism and the preservation of political freedom. Following Friedman (1962) and others, the best guarantee of individual political freedom is said to be the perservation or, better, the extension of popular capitalism. The central ingredients of popular capitalism are held to be the institution of private property and freedom of exchange based on widely disseminated market information and a multiplicity of small buyers and sellers. Individuals acting independently within the market in their own interests achieve the greatest common good, as long as nothing interferes with the market and there are no externalities. The chief interference with the market is the state's, when it establishes public enterprises to supply anything other than public goods, when it limits entry into an industry or otherwise protects existing enterprises within an industry, when it taxes in such a way as to influence resource allocation, when it regulates prices and business behaviour, and so on.

There are some (eg. Friedman and Friedman, 1980) who go so far as to claim that the state is the sole source of distortions to or interferences with the market. To these proponents of popular capitalism, privatisation is a broad term for the shrinkage of the role of the state by whatever means - the transfer of ownership of enterprises and assets from the public sector to the private sector, the abandonment of non-commercial objectives for all enterprises, the creation of situations of rivalry ("competition") in all industries, contracting out the provision of services presently supplied by the state, and the abolition of regulation, protection, underwriting and restriction of entry by the state (that is, broadly, "deregulation").

This model of popular capitalism is fundamentally flawed. It is characterised by contradictions and limitations. For example, there is a contradiction between making information a form of private property and requiring it to be widely disseminated, and there is a significant limitation on the freedom of a worker to sell his or her capacity to work when otherwise he or she would starve. However, this is not really the place to reherse arguments well developed elsewhere (eg. Nell, 1984). Perhaps the most pertinent break between the model of popular capitalism and reality is that it blindly rejects the possibility that any force other than the state could produce a tendency towards the concentration of ownership and centralisation of control of assets and enterprises.

There can be no denying that each capitalist firm will endeavour to protect its investment by controlling its environment. The more the firm is exposed, the greater the endeavour, although the degree of endeavour is presumably limited by considerations of opportunity cost. Control of the environment may mean undercutting and eliminating some rivals and coming to terms with others, or it may mean securing the relevant technology of production and raw materials. The important question, though, is not whether a firm **endeavours** to protect its investment but whether it succeeds in doing so. If it does, that is if it succeeds in ensuring profitability regardless of the wisdom of the investment, then it will have undermined the market as a mechanism ordering the allocation of capital. It may be argued that success is unlikely without the aid of the state, in view of the lengthening of the typical period required for the gestation of a project in relation to the period of operation available for amortising the investment and making a satisfactory profit (Mandel, 1975: ch. 7). On the other hand, one should not underestimate the scarcity of technical expertise and the advantage of a history of research and development in a particular area in ensuring that a firm's control of that area is virtually incontestable.

There can be much less ambiguity when we come to consider the tendency towards concentration of share ownership. There are two forces at work here, the first acting to concentrate individual shareholdings and the second acting to replace individual shareholdings with holdings of institutions such as life assurance companies, superannuation funds, etc. (Heald, 1985; Crough, 1980). There is no reason to suppose that share holdings in privatised public enterprises won't become as concentrated as shareholdings in general after a little time, unless perhaps there is some greater loyalty of initial shareholders in enterprises which used to be national emblems. At the outset, an allotment of shares may be reserved for small shareholders as well as workers in the enterprise that is being privatised. But it would too obviously fly in the face of the spirit of privatisation if somehow these shares were made non-tradable. In Heald's words: "There might be a rapid reduction in the number of shareholders once the initial publicity has died down and the financial benefits from share incentive schemes have been reaped. If institutional shareholdings have been restricted at the time of flotation, they are likely to be built up at the expense of individual shareholdings. Such restrictions will bring windfall gains to individual shareholders, at the expense of the taxpayer" (Heald, 1985: 78).[6] According to this line of argument, the sale of public enterprises is unlikely to stimulate people's capitalism.

There is an argument that the sale of public enterprises is a dishonest and even contradictory way of stimulating people's capitalism - that, if people's capitalism is really what is desired, then transferable shares in public enterprises should simply be given to all individuals in the com-

6 On the other hand, Heald suggests that maximising revenue from the sale, by means of an equity tap for example, is likely to have as a corollary the diminution of the spread of shareholdings.

munity (Porter, 1986). After all, to *sell* shares in public enterprises is to require that the people pay for what they already "own". If the promotion of people's capitalism does not really require the *selling* of public enterprises, there must be another reason for the selling, namely to boost government revenue. Such a boost to revenue permits the state to expand its role somewhere else while withdrawing from the ownership of enterprises. This defeats the purpose of the privatisation of public enterprises as a way of diminishing the place of the state in favour of the market.

Some libertarians have also realised that it can be futile to speak of promoting popular capitalism through the sale of public enterprises unless the enterprises are simultaneously de-regulated. For example, Peter Forsyth observed to the Centre for Independent Studies that "in most cases of privatisation [in the U.K.] market liberalisation has been possible, yet it has rarely occurred. ... the government has opted for either the status quo or minor liberalisation, and has specifically ruled out the competition that might be possible. It has increased the selling prices of its assets by promising continuation of government-supported artificial monopoly (Forsyth, 1987).[7]

Prime Minister Thatcher's policies must be deemed a great disappointment to libertarians. Indeed a perfect example of Forsyth's complaint is to be found in the announcement in early April 1988, of changes in the supply of water within the U.K. It was announced that the ten regional water supply enterprises would be privatised but that a National Rivers Authority and Director-General of water services would be created to regulate the newly-privatised enterprises (*Financial Times* 1988).

Tapping An Extra Source of Finance

7 The chief exception to the U.K. government's policy was the deregulation of the inter-city coach industry prior to sale of the National Bus Company. While there were new entrants into the industry in earlier deregulated days, many subsequently left and the National Bus Company is still the dominant firm. (Domberger and Piggott, 1986: 158)

A third argument for privatisation, widely used in recent times, has to do with financing the expansion and/or modernisation of public enterprises. The argument is that some degree of privatisation is necessary to provide the public enterprise with sufficient finance for the expansion and re-equipment needed for it to remain viable. However, recourse to the market for equity capital does not require total privatisation (the total transfer of ownership to the private sector); and it is entirely possible for the state to maintain a share of equity which preserves its control of the enterprise. The argument is to be found in, for example, the announcement by the N.Z. Prime Minister in 1986 that shares in the Bank of New Zealand would be sold to the general public and in the statements of the Australian Minister for Transport and Communications in support of some degree of privatisation of QANTAS (Lange, 1986; Austin, 1988).

It is usually stated that recourse to the equity market is a last resort, that all other sources of finance have been exhausted. First, the injection of new capital by the state is typically ruled out by the argument that the state faces a fiscal crisis and that the state's deficit must be reduced. Second, borrowing by public enterprises themselves, as by the state **per se**, is said to tend to crowd out private investment by pushing up interest rates (but, then, so would raising equity funds). Third, borrowing creates a fixed obligation to repay, whereas the payment of dividends may be deferred or no dividends may be declared; and in so far as the funding has to come from abroad, the balance of payments and the currency may already be under strong pressure from prior, fixed interest obligations. Fourth, it may be claimed that an enterprise's capacity to borrow is limited anyway by its capacity to raise equity capital, through conventions in regard to gearing ratios. (In the case of banks, the central bank's prudential requirement, which may refer to the ratio of shareholders' funds to loans outstanding, imposes a further limitation.) Finally, the capacity of an enterprise to raise funds by way of an increase in its charges and hence in its net operating surplus is limited by the possibility of losing customers to rival enterprises.

All of these claims may be correct; but whenever any one of them is made particularly any claim referring to gearing ratios - it should be closely scrutinised. A couple of examples will suffice to illustrate the point. One involves the issue of "stock" by the State-owned Rural and Industries Bank in Western Australia in 1986. This was in effect a raising of funds that were **deemed** to be equity rather than debt funds (Smith, 1986). Returns were tied to the bank's profits and no voting rights were attached to the "stock". A Commissioner of the bank was quoted as stating that "it's just like putting $1000 on deposit for four years, except that this is perpetual and involves participation in the bank's profits." Further, in September 1986 the Reserve Bank of Australia declared that "Subordinated Perpetual Debt" (subordinated in the sense that "the claims of the lender on the borrowing bank must be fully subordinated to those of depositors and all other creditors, ranking ahead only of shareholders") can be included in a bank's capital base for the purpose of the prudential requirement (Reserve Bank of Australia, 1986). If such flexibility of interpretation exists in this case, it seems likely that there is comparable flexibility in interpreting conventions regarding gearing ratios.

In any case, there are ways of raising a proportion of equity from the public without materially altering the control of the enterprise. In other words there are ways of limiting the rights of the owners of the new shares. First, the issued shares may not carry voting rights. Second, the equity may actually be raised by a state-operated equity trust: so, for example the government of the State of Victoria announced in August, 1987, that it would establish the Victorian Equity Trust (Crough, 1987). Third, the equity may be provided by a state-operated superannuation fund. Arguably none of these devices is consistent with privatisation as a libertarian promoter of people's capitalism would understand the term.

Corruption and Subsidisation

So far it has been argued that privatisation is not a necessary condition for an improvement in the performance of the enterprises concerned, is unlikely to promote popular capitalism, and is not a necessary condition for gaining access to more capital for expansion and modernisation of the enterprises. But there are two further related reasons for privatisation. These two are (i) to end the graft and corruption so clearly associated with the operation of public enterprises in some countries, and (ii) to fore-close a major means of disguising state subsidies to particular private interests.

The significance of public enterprises, in some countries, in enabling certain individuals to amass vast private fortunes has been well established (Butler 1989). Contracts with firms supplying the public enterprises may be open-ended and may be awarded to cronies; lucrative directorships may also be awarded to cronies; or the enterprise may be sold to a particular capitalist for a fraction of its real value, once it has become viable. Nor can it be denied that the management of public enterprises may surreptiously favour particular customers or groups of customers, not for the management's private gain but on the instructions of the government of the day. Not uncommonly there exists some scope in a public enterprise such as an electricity-generating authority for the levying of different charges, ostensibly on the grounds of economies in the scale of delivery or to relieve the peaking of demand. Not uncommonly the details of the varying of charges are not open to public scrutiny (Saddler, 1981: 157-163).

However, it is difficult to see how the problems of corruption and favouritism are the consequences of public ownership per se. They are, in the first instance, the consequences of inadequate structures of accountability and perhaps of perversity in the structure of incentives and rewards. These structures can be changed without any change in the ownership status of the enterprise. Anyway, as previously argued, the rigour of competition in markets for outputs and capital may not be such as to enforce accountability: managements may not be effectively held to account by markets for any failure of their enterprises' performances because of their capacity to exercise control over the markets in which they deal.

Four Different Agendas

Privatisation: a Hidden Agenda

There may actually be a hidden agenda among many of the proponents if privatisation. That is that privatisation reduces the mechanisms available to the state for the pursuit of several "social" objectives. These include the redistribution of income between classes or at least between parts of the community, the provision of employment without discrimination according to race or sex, the retraining of redundant workers, and so on.

The redistribution of income is probably the most common concern. There are three cases in which a public enterprise can alter the distribution of income,as long as it produces something which is used by practically all parts of the community (such as electric power). The first is that in which it costs the same amount to supply each unit of the output but the enterprise levies different charges for the output on different parts of the community. The second is where the cost of supplying the output to some parts of the community is higher than that of supplying to others but the same charge is levied for all of the output (the familiar case of "cross-subsidisation"). The third is that in which the cost of supply and the levy are everywhere the same, but the cost exceeds the levy. The deficit is then financed by state revenue collected by taxation that falls proportionately more heavily on some parts of the community than on others.[8]

The reason for wanting the removal of requirements upon public enterprises that they pursue "social" objectives may be straight-forward. The pursuit of several objectives may make it unlikely that any one is satisfactorily achieved. The several objectives may be inconsistent with each other to some degree; the relative weights to be given to them may be unclear and may seem to vary; management may not take certain objectives seriously or may be opposed to them and may set out to trivialise them; and so on. Alternatively the reason may be a general one: for example, to cut back the cost of the legitimisation function of the state, its function in maintaining social stability; or to negate the expectation that a person can lay claim to an income that is not conditional upon submitting to the discipline of the labour market. Thus, the point of pushing for privatisation and hence for the supremacy of the "commercial" objective may be to force the "social" objectives to lower positions on the political

8 An enterprise with monopoly power may inadvertently alter the distribution of income in maximising revenue through price discrimination in different sub-markets, according to the orthodox understanding of monopoly power.

agenda. It may appear to a person wanting - for whatever reason - to confine all enterprises to the pursuit of the one financial objective that it would be politically simpler to push for privatisation rather than to repudiate each and every "social" objective.

Public Enterprise and the Organisation of Capitalism

In modern capitalist economies, public enterprises can occupy a significant place on a quite different agenda. According to this agenda, the privatisation of public enterprises is limited by the state's need to maintain control of them.

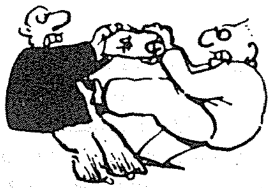
The fundamental reason for the state's not conceding control is that it is expected to be the organiser of capitalism. The argument behind this statement can only be outlined here.[9] Contrary to the neo-classical position, the first great division of the social product between profits and wages is not determined by the relative marginal contributions of capital and labour. Instead, it is determined by contests between capitalists and workers in various arenas - the workplace, the sphere of wage negotiations, etc. These contests take place according to various rules; and it is the state which, predominantly, establishes the rules in each case. Similarly in the case of the second great division of the social product, the disposition of the surplus product, the state is critical. Obviously the state appropriates a portion of the surplus product through taxation; but it also has a bearing on the disposition of the remainder between industrial, banking and merchant fractions, and on the inter-industry pattern in which part of the surplus product is invested. Here the state's influence may overwhelm that of the market. Alternatively the market may be undermined by the power of large capitals and the state may simply be filling the resulting vacuum. The strength of the argument for the state as organiser is increased in so far as the latter is true - that the market as an ordering mechanism is **undermined.**

9 A more complete version is to be found in my "Contracts in the Political Economy of a Nation", Sydney, 1988, mimeo.

That the state is required as organiser in advanced capitalism does not guarantee its consistency or coherency, of course. No more does it guarantee that the management of public enterprises will be responsible even when they have only one objective to pursue. Nevertheless, this chain of reasoning does suggest several limits to the benefits arising from privatisation, even according to capitalist criteria. There is evidence of the state's desire to maintain control despite privatisation in the frequency of the habit of partial rather than complete privatisation. When British Telecom was privatised, the U.K. state retained just under 50 percent of total equity (and maintained its regulation of most of Telecom's activities) (Forsyth, 1986). Since that time, the Thatcher government has insisted that the state should retain a "golden share" in more complete privatisations, giving it a veto in regard to certain actions. The partial privatisation of Singapore International Airlines and the Malaysian Airline System has left the respective states with controlling interests (*The Economist*, 1985). In the much publicised case of the privatisation of Nippon Telephone and Telegraph, the state will have retained at least 30% of equity after the gradual sale of the majority of shares (Hensher, 1986).

A Democratic Socialist Agenda

To a socialist, the transfer of ownership of public enterprises into private hands is important, notwithstanding that the state may firmly retain control over significant dimensions of the enterprises' operations. It is important for four reasons. First, the taxation of the profits of public enterprises (the state's appropriation of some part of the surplus produced) is direct, whereas in the case of private enterprises and their owners it is commonly a question of what companies and individuals can be persuaded to concede. Second, public enterprises are a symbol of the possibility of communal rather than individual ownership and organisation of the means of the society's production. Third, the existence of public enterprises makes is possible to experiment with labour processes different from those which underlie private profit-making. Fourth, the existence of public enterprises makes it possible - in principle - to develop new modes of accountability for management and to experiment with the fragmentation of enterprises to this end.



A Populist Agenda

The final agenda is a populist agenda. In each country, there are public enterprises that were developed as such over many years. Those people who worked in them worked for public enterprise, in a community undertaking. People alive now may well feel the need to respect the commitment of their forbears to the establishment of enterprises that were explicitly to be within the public domain. They may feel that it would dishonour a heritage if those enterprises were to be privatised.

Conclusion

Each of the conventional arguments for privatisation is fraught with difficulties. First, it is claimed that privatisation - or the market - enforces stricter accountability and hence improves the efficiency of the enterprises. Yet markets are frequently distorted, undermined or perverted. Moreover, there are major problems of judging efficiency. The second reason advanced for privatisation is that it helps to promote popular capitalism. However there are forces working independently of the state to concentrate and centralise the control of all markets, especially for company shares. Third there is the argument that privatisation is necessary to extend the limits to the provision of private funds for the financing of investment. This appears to ignore the newest financial instruments which open up alternative sources of financing. Finally, privatisation may obviate the graft and corruption which is sometimes associated with the operation of public enterprises and forecloses a major means of disguising (legal) state subsidies to particular private interests. But why set out to overcome the problem of a bad driver by selling the car?

On reflection it should not seem surprising that one reason for privatisation has been excluded from this list - that privatisation reduces the state's deficit or enables the retirement of part of the state's debt. The proponents of privatisation do not appear to have offered an argument as to how the distribution of debt between the public and private sectors is related to the growth of the G.D.P.

Finally, we have noted four different agendas in the privatisation debate. These alternative perspectives have had less of a public hearing. In one case this is because there is a secret agenda which involves an assault on broader social objectives. In another, it is argued that public enterprises may be a necessary element in the functioning of modern capitalism. In the other two cases, democratic "socialist" principles and populist sentiments are involved in mounting a defence of public enterprise. The primary purpose of considering these other agendas is to provide a reminder that there are other compelling perspectives and that the agenda of which we hear most is a particular agenda - that of right libertarians.

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