

# Privatisation

Privatisation is a term that refers to the sale of a Government owned industry to the private sector. However, there is often a clash between the public interest, and a private interest. The public want to ensure that the resource operates efficiently, and that the industry supplies its goods or services at a low price.

However, a privately controlled industry will try to make as much money as possible, often to the detriment of the public. For example, in 1990, Telecom was sold off to American corporations for over \$4 billion. It was widely believed that the price that the Government received was well below the actual value of Telecom.<sup>1</sup> Decades later, Telecom is one of the largest corporations in New Zealand, but the service that it offers is of poor quality.<sup>2</sup> Nonetheless, Telecom's CEO receives around \$5 million per year in compensation.

The issue of privatisation has arisen recently with John Key's proposal to sell off shares of publicly owned industries to private shareholders. Key has proposed that these shares will be sold to "mum and dad investors." The plan is for the Government

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1 John Minto: "Political pledges carried high price" The New Zealand Herald, available at [www.nzherald.co.nz/economy/news/article.cfm?c\\_id=34&objectid=10383530](http://www.nzherald.co.nz/economy/news/article.cfm?c_id=34&objectid=10383530)

2 Telecom has twice won the Roger Award for being the worst transnational corporation operating in New Zealand.

to retain a majority shareholding. Despite Key's enthusiasm, polls have indicated that the majority of people are opposed to these plans.

In order to further understand these issues, we decided to interview Jim Flynn, an Emeritus Professor of Political Studies at the University of Otago and one of the greatest intellectuals of our time. He was the head of Otago University's Political Department from 1967 to 1996. He currently teaches two courses. The first is called *Justice, Race and Class*, in which he argues that the "enemies of equality" are mistaken. His second course is entitled *The Good Society and the Market*, in which he investigates if it is possible for the excesses of the market not to undermine a 'good' society. Flynn has been very active in progressive politics for decades, and supports the Alliance Party.

**In the 1980s, the Fourth Labour Government sold off several key industries. Industries such as Telecom, the Rail system, and Air New Zealand were privatised. What were the justifications for doing so?**

Essentially to balance the budget. [They] said the country and the Government were broke. They also had adopted a free market ideology. I'm sure that they not only wanted the proceeds from these sales, but they'd also convinced themselves that those industries would be run more efficiently. That was the stated rationale; I suspect they believed it.

**What has been the social and economic impact of these sales?**

From my point of view, the Air New Zealand sale has proved to be disastrous and they had to re-nationalise the airway! You cannot, in a small country, really run competing overseas airlines. There is only enough trade for one airline and if you

try and have a competitive setup you will have to have multiple players. If there are two players, one of them either by good luck or skill is going to pull ahead of the other. [The leading airline] will drive its competitor out of business, unless the Government subsidises it. It's almost impossible to have a free market with two competitors. So, [the Government] were forced to re-nationalise Air New Zealand. [The Airline] has a wonderful record of airline safety; it's an advertisement for the existence of New Zealand.

The rails in New Zealand - again, we're not a huge country. In America AMTRAC has effectively become an organ of the Government on the East coast, there's no real competition of rail on the East coast of the United States. And of course for telecommunication the same is true; any competition in that area is an artificial competition. All the time the competitors with Telecom are claiming that they are at a competitive disadvantage and they need this type of legislation or that type.

When you have a country the size of New Zealand, [major industries] are most effectively run as Government monopolies. You can have a little competition particularly with small airlines - Mount Cook for example; that's possible, but fundamentally these are natural Governmental monopolies in a country of this size.

**The public are told that private interests are better at running industry than the Government. Do you have any comments?**

It depends on what you want. If [industry is] publicly run, money spent on safety is money spent on safety. If it's privately run, every cent you spend on safety is an expense against profit. Therefore it's much more difficult to hold a private airline, let's say, to safety standards. I mean they're always looking for ways to save money. So that is a built in inefficiency in such a situation.

Will [state industries] be more innovative? That can be true, that depends on the quality of the civil service that runs it. In Scandinavia the state [industries] are highly efficient. Now you can always say that's part of their political culture. [However] in a country like America where the Government is a gigantic swindle machine, things probably won't be very efficiently run by the Government. I think that's often a matter of political culture.

Now I would like to think that the political culture of New Zealand is such that the major state run [industries] would be run with sense and efficiency. I'm not talking about fish 'n' chip shops or a Barnett's clothing store, I'm talking about the major resources of a country.

Another point: if the [industry] is exploiting a natural resource, like your resources of oil, a private corporation has a vested interest in exploiting and thereby exhausting these as quickly as possible. Now you can always say "Aren't they cutting back their future profits?" Yes, but the future profits belong to a generation beyond the lifespan of the shareholder. If we lived for a thousand years, then of course it would make sense to conserve the resource to protect your future income. But, given the lifespan of a shareholder, there is a continuous pressure to make money while the sun shines and the conservation of this resource is neglected. Now I'm talking as a democratic socialist of course, I mean this is my perspective. You'd get a different perspective from a Friedmanite.<sup>3</sup>

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<sup>3</sup> A Friedmanite is a supporter of the theories of Milton Friedman (1912-2060). Friedman was a famous economist at the University of Chicago. He supported neo-liberal theories, and believed that the primary purpose of corporations was to make a profit.

## **Another phenomenon was the formation of State Owned Enterprises (SOE). What are the key features of a SOE?**

They were a halfway-house between nationalisation and privatisation. There wouldn't be anything intrinsically wrong that I can see about that type of setup, as long as they weren't being asked to subsidise the Government, by maximising their profit. It all depends on the terms that an SOE has; that is *What is the climate in which it is expected to operate?* You don't want every nationalised enterprise to operate like the post office! Some of them you'd want to give a little freer range to experiment, perhaps even to raise some private capital. And this can be a reasonable way to operate. The Tennessee Valley Authority in America doesn't operate like the post office, it has a broader brief.

Unfortunately sometimes this [SOE scheme] was just a cloak - a halfway step to privatisation. And that's demoralising for the people running it. They know that they are not a permanent group in which the Government has confidence; they're just a caretaker, a 'stalking horse' on the way to privatisation. So that's what I mean by the political culture.

## **Do you think New Zealand's SOE scheme fits into that mould? With SOE's pretty much running like private enterprises?**

It depends on who is in power! I've always supported the Alliance, and of course we split with Jim Anderton some years ago and we are not in Parliament anymore. But, if we controlled the Government, that would set a political culture among the civil service that would be quite different from that which you've got today. The civil services' morale would have to be rebuilt; it's been castigated as inefficient and now I think its morale must be at an all time low.

**John Key has proposed partial privatisation of assets after the 2011 election. Is this plan more justifiable than what occurred in the 1980s?**

This is a crazy thing! The slogan is always “Sell to raise money!” But, what happens when you run out of assets? We already have fewer state assets than most OECD countries. [Privatisation is] a temporary expedient. [Assets are] usually sold below their true value. It means that in the long term, whatever burden the citizen escapes as a taxpayer they pay as a consumer. So, it’s really just a blind to avoid raising taxes. The bait [that the National Party are] holding out is that New Zealanders will own shares in these companies.

Note what that means; as a shareholder you want these companies to gouge the public for the maximum profit. [However] as a consumer you’re the one who is going to be gouged! It’s a crazy situation. That is unless you say to yourself “I’m a shareholder and most of New Zealanders are not shareholders, the gouging will give me a greater return than the inflated prices that I pay as a consumer.” [Yet] that means that the shareholders will have to be a relatively small share of the population. If you imagine everyone holding shares - it’s an insane situation! Because, on the one hand as a shareholder your concern [is] to inflate pricing, but as a consumer you’re the victim of the inflated pricing.

**According to polls, the majority of the New Zealand public opposes the sale of state assets. Yet the National Government seems enthusiastic about the sales. Does this reflect a disconnection between the democratic will of the voting public and the interests of those who rule?**

It reflects also the schizophrenia of the public. If the polls said ‘*Would you rather sell 49% of state assets, or pay higher taxes?*’ You might get a negative answer from the public!

The Government are guessing that the public will be more outraged at tax rises than it will be at privatisation. Now we don't know that that is true. We know that 20% of the public is sophisticated enough to see the game. They are the potential Alliance vote which we have unfortunately never realised, we briefly did get 18% and then we fell on hard times.

But, I would prefer to have a Government that would educate the tax payer and say "Why are you interested in keeping money in your pocket (by avoiding tax raises) just to have money taken out of your pocket (with higher consumer prices)?" So, I would suspect that you could approach the public and put the issue before them in a way that they would be receptive. But you only know if you try. And Labour is certainly not going to try, they will just shout and whine about the sale of assets which they pioneered and will of course not dare to raise taxes.

**The Government is claiming that such privatisation is needed in order to reduce our national debt.**

Yeah, I commented on that; it reduces our national debt very temporarily.

The real problem in New Zealand is private debt! Our debt crisis is actually that the average member of the public has been encouraged to run up enormous private debts. Primarily because they were confident that their equity in their home would cover these debts. This eventually leads to a false equity in homes. Homes get an artificial value, they're easy to finance and everyone wants to buy them as a hedge against debt. And you overbid the price of home and eventually someone thinks "The only reason a home costs this much is that everyone is willing to pay this much," at which point there is a collapse in the housing market. And the private debt can become terrific. If I were the Government I would be interested of course in reducing the public debt; but I would be far more interested in the private debt crisis.

**But are there any alternatives to privatisation in order to reduce public debt?**

Yes, enhanced taxation. No one wants to say it. And off course it should be progressive taxation.<sup>4</sup>

**Finally, you taught Western Philosophy at Otago University for several decades. Do you think today's political leaders have much to learn from the Western tradition of philosophy?**

Today's political leaders don't think they have anything to learn from the Western tradition of philosophy, because [it] was economically ignorant up until about John Stuart Mill.<sup>5</sup> And even Mill in his time didn't have to [focus on] international corporations and the sort of insane market that led to the recent crash!

And this is one of my 'crusades'. If you really want to plan a just society you cannot be economically naive. So yes, the tradition of Western society could teach [our political leaders] that economists do not know how to promote the good life. You have to have an image of a human society which allows human nature to flourish and that may be a society that limits materialism. Well, the market will never limit materialism - it promotes it! But political philosophy will have one hand tied behind its back unless it becomes economically sophisticated, because economists despise anyone who cannot argue with them on their own terms. They aren't going to respect any political philosopher who cannot actually paint an economic scenario which is defensible.

*Interview conducted by G Iddamalgoda, 10 Febuary, Dunedin.*

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4 Progressive taxes reduce inequality, by taxing the rich more, and by taxing the poor less.

5 John Stuart Mill (1805-1873) was a British philosopher. Many of his ideas were ahead of his time in Victorian England, as he was in favour of freedom of speech, and against the poor status of women. His most well known work on the economy is entitled *Principles of Political Economy*.