

SYMPOSIUM ON THE PRIVATISATION OF STATE ASSETS AND STATE COMMERCIAL COMPANIES

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“He could just make out the giant turbines of the State-owned factory which had saved his small half-parish from withering away like so many others in rural Ireland. The factory processed compressed peat and employed many of the farmers’ sons in the district, thus saving him or his parish priest, Fr Meloday, from penury”

An Apology for Roses,

John Broderick

1 INTRODUCTION

In a recent article in the Irish Times (November 5 1987) Political Editor Dick Walsh pointed out that “calling for privatisation now sounds like a singularly ill-timed appeal to give capitalism another chance. It sounds ill-timed because behind the argument for privatisation lies the assumption that the market-place offers us the prospect of a brighter future: better use of our resources, less strain on public funds, greater efficiency in the supply of goods and services than we’ve known so far”

But look at the recent manifestations of the market-place at work – convulsions on the Stock Exchange, the failures of ICI, PMPA, H. Williams, the flight of foreign corporations such as Hyster, the inability of the Irish private sector to develop a strong indigenous industrial sector, 250,000 unemployed and less people employed in manufacturing industry than there was in the mid-1960s

The lights of Margaret Thatcher’s share-owning democracy – and of that more extensive casino of investors under the nominal proprietorship of Mr Ronald Reagan – may not have gone out altogether, they have certainly grown dimmer of late

This has not deterred the proponents of privatisation who tend to see these events as more hiccups in the system. It has neither silenced their criticism of the public sector nor dampened their enthusiasm for, as they classify them, the market sector over the non-market sector

Still, as Dick Walsh pointed out, they must be taken seriously, because what they are talking about is not simply managerial competence, different ways of

running large organisations so that the customer gets to talk to the right person or some painless way of reducing the National debt

The argument is about our views of the relative merits of private enterprise and public ownership or control. It's about how our State and semi-State organisations came into being, how and why they've worked as they did and how they might be made to work from now on. It's about whether our society would be better off with more or less State intervention in the economy. It's about efficiency – both in the use of resources and in the quality of the goods and services supplied. It's about monopolies – State monopolies and private sector monopolies. And, of course, it's also about ideology.

In this short paper, I will deal with each of these issues by looking at

- (a) who is in favour of the role of State assets and State commercial companies and why?,
- (b) the record of public enterprise and the environment within which it has had to operate,
- (c) the contribution, it is claimed, that privatisation would make to lowering the National Debt, increase efficiency and wider shareholding,
- (d) alternatives to privatisation

In recent years, the lobby in favour of privatisation, or more specifically the handing over of something that belongs to the public (you and me) to a small number of private individuals, has been very vociferous, aggressive and blatant in their use of propaganda. In putting together this propaganda, they have been assisted by a number of economists who unlike eminent predecessors such as Paddy Lynch, T K Whitaker and James Meenan, appear to consider that facts and realities may be ignored or distorted and history rewritten to prove the case on behalf of their client. I hope that, in this Symposium, we stay close to the facts and that points based on ideology or the political viewpoint of the contributor will be identified and so stated.

2 WHO AND WHY?

In listing the arguments for privatising State assets and State commercial companies, people normally reply on papers written by Professor Patrick Minford, University of Liverpool or Sean Barrett, Trinity College, Dublin. I have decided to ignore economists and to go out into the Real World, where the decisions on these matters are made, and seek out the views of farmers, industrialists and politicians and the reasons they give for favouring privatisation.

Here are just a few examples

- "Surely the obvious way to reduce the State's demand for taxation and increase rewards for those who work at all levels in the economy is a move to privatisation" Joe Rea, President, IFA

- “ it is time we started solving our debts and taxation problems through the sale of publicly owned enterprises and property” Professor Tom Rafferty, MEP, Fine Gael
- “Our members are no longer prepared to bolster up an under-worked, over-staffed and overpaid public sector” Michael McLoughlin, Chairperson, Irish Federation of the Self-Employed
- “State dominance inhibits enterprise There was a legitimate case for massive State involvement when the State was new but that day has passed” Michael Keating, T D , Progressive Democrats
- “I left Aer Lingus principally because of flattery I was earning £10,000 a year Then Dermot Ryan phoned me one night and said, ‘Arthur, I don’t know what you are getting at Aer Lingus, but if you come to work for me I’ll double it and I’ll throw in a BMW as well’ I was terribly flattered Here I was, aged forty-six and the outstanding entrepreneur of the day was bidding for my services
All over the world it is the age of the entrepreneur The establishment is being taken on all over the place – pirate radio stations, privately owned bus fleets, it isn’t just happening in aviation”
Arthur Walls, ex General Manager of Aer Lingus, and now head of the privately owned Ryanair, telling the Evening Press in May 1986, why he left Aer Lingus in 1972 and how he saw the future for enterprise
- “There is no doubt in my mind that the Government will have to turn its mind to floating off State and semi-State companies” Angus McDonnell, President of the Stock Exchange

The views of these vested interest groups are not new They are a continuation of the campaigns of opposition to public enterprise which stretches all the way back to the opposition of the Farmer’s Party and business interests to the Shannon Scheme and the establishment of the ESB in 1927

The Shannon scheme when first proposed by the Minister for Industry and Commerce, Patrick McGilligan, was opposed by the Farmers’ Party, the Irish Centre of Electrical Engineers and a variety of business interests Michael Heffernan, the leader of the Farmers Party said “The people of this country are very conservative with regard to new ideas They do not take to them as people in other countries” Purser Griffith, on behalf of a group of businessmen with financial interests in an alternative scheme for the Liffey, opposed the Shannon scheme because it meant that electricity was now falling victim of the “poisonous virus of nationalisation”

Following the successful completion of the Shannon scheme at Ardnacrusha, seventy private electrical undertakings, supported by the Dublin Chamber of Commerce, opposed the establishment of a publicly owned authority to distribute the electricity A survey undertaken for the Government showed, however, that “the non-statutory undertakings have always been run purely for

profit and in the vast majority of cases have given a very poor service and have been badly run the acquisition of these plants would be of little value to the new Board because of their generally poor quality” Despite this Report, the debate on the Bill to establish the ESB was accompanied by cries of ‘socialism’, “the complete elimination of private enterprise, comparisons with Russia and headings like ‘Confiscation and Robbery’ (Irish Times 6 4 1927)

Before dealing in detail with these arguments for privatisation of State commercial companies, it is necessary to examine why these companies were established and to look at their record to-date

3 FOR THE RECORD

Since the foundation of the State the attitude of successive Governments to public enterprise has been to tolerate it as a necessary evil “Necessary” because private enterprise could not or would not do the job that needed to be done, “evil” because it ran counter to their faith in private enterprise as the natural and proper way of doing business

According to Dr Garret Fitzgerald, public enterprises were set up “to maintain in existence a bankrupt or virtually bankrupt undertaking whose preservation is believed to be in the national interest to initiate an economic activity deemed necessary in the national interest but one which private enterprise has failed to inaugurate or to operate on a sufficiently extensive scale”

According to Sean Lemass, “State-financed industries have been set up only where considerations of national policy were involved or where projects were beyond the scope, or unlikely to be undertaken by private enterprise”

The circumstances in which public enterprises were established were, therefore,

- (a) where private enterprise had tried and failed (e g national transport, sugar processing, steel production),
- (b) where private enterprise refused or was unable to invest the capital required (e g air transport, electricity generation),
- (c) where private enterprise was misusing a valuable natural resource for short term gain (e g peat production)

Despite this hostile environment, State commercial companies played a central role in the industrialisation of Ireland and the modernisation of the Irish economy They have provided us with a national electricity service, a national telecommunications system, a national airline, a national transport system, a national broadcasting service and developed natural resources such as peat and forestry Today, six of the top ten employers in the country are public enterprises

The seventeen principal State commercial companies employ almost 80,000 people, have capital employed of £7.2 billion, a turnover of £4.2 billion and

contribute 8 per cent of GNP. Economic activity generated and sustained by public enterprises also creates a lot of jobs and profits in the private sector and in the local economy.

In the latest year for which accounts are available, the seventeen principal enterprises had trading profits of £447 million. After meeting financial charges amounting to £366 million, they had a net profit after tax of £85 million. Fifteen of the seventeen public enterprises are now trading profitably. In the latest accounting year, ten of the seventeen, after meeting financial charges made net profits. Indeed, some of the companies such as Aer Lingus (£19 million), Aer Rianta (£12 million) and Bord Gais (£93 million) made significant net profits.

In measuring the performance of State commercial companies, we should remember of course that they have had to face the same serious problems which confronted their counterparts in the private sector in recent years. They are also lumbered with social obligations that are not costed and financed by the State, are not allowed in many areas to compete with the private sector and are often forced, through political interference, to make uneconomic purchases from the private sector.

4 PRIVATISATION – NATIONAL DEBT, INCREASED EFFICIENCY, WIDER SHAREHOLDING

As we saw earlier, some private sector spokespersons consider that selling-off State assets and State commercial companies would solve our National Debt problems, lower taxes and, through wider shareholding and greater private sector involvement, increase efficiency. We can only test these assertions by looking at a country which has tried privatisation. In an Irish context, it should be noted, of course, that proceeds from asset disposal are a once-off windfall and would not significantly improve the condition of our public finances.

As regards raising revenue to pay off the National Debt or lower taxes, the sale of seven public enterprises by the Thatcher Government in Britain resulted in an immediate loss to the taxpayer of £4.5 billion. In the case of the recent BP sell-off, the Chancellor, Nigel Lawson, indicated on 28 October that he was prepared to lose £1,500 million rather than call off the sale.

In May 1984, the British House of Commons Public Accounts complained about the sale of public enterprise assets “creating windfall gains for the investor at public expense”. Also private investment in public enterprise would not add to the overall stock of investment capital. It would represent mainly a transfer of funds from existing investment, i.e. gilts, equities, building societies, post offices, etc. For many years, the private sector has complained about its inability to expand because of the absence of equity capital for longterm investment. 45 per cent of new investment in private industry is provided by the State. If substantial private sector funds are now available for non-risk investment in public enterprise, then there is no case for State continuing to give grants, subsidies and risk capital to private sector companies.

As regards greater share ownership, this only accrues of course to those who can afford to purchase the shares. Any concessionary selling price represents a regressive subsidy from the general taxpayer to the marginal shareholder. All the evidence in Britain suggests that the big financial institutions quickly acquire control of privatised companies, as the majority of small shareholders sell the shares they bought cheaply at a profit.

Two examples

British Aerospace – there was an 83 per cent drop in the number of shareholders within a year of privatisation, and the number of small shareholders (those with under 100 shares) fell from 44,000 to 3,300 – a 93 per cent drop.

Cable and Wireless – 467 large shareholders own three-quarters of the 346 million shares that are in private hands.

Enterprises that are, at present, part of our national assets, owned by all the people, would belong, under privatisation, to an unrepresentative minority. Also private sector shareholding shows that short-term gains take precedence over longer term benefits for the company and for the country.

Since privatisation, levels of efficiency and quality of service in many British companies have disimproved. For example, according to the Office of Communications, a Government watchdog for British Telecom, there has been a 50 per cent deterioration in the efficiency of the service, speed of response and the number of phones in working order. Also, British Telecom now wishes to charge the National Health Service an extra £10 million for a special same-day repair service, which was provided free of charge before privatisation.

Irish private sector companies also score very badly as regards efficiency. Among the 22 OECD countries, Irish private sector companies rank 20th for product quality, 21st for after-sales service and 22nd or in last place, for marketing.

According to some commentators we should embrace privatisation because it is a worldwide trend. But this is not true. Several countries, some with larger public sectors than Ireland, such as Sweden, Denmark, Holland and Belgium, have not taken Mrs Thatcher's fast lane to an industrial wasteland by privatising State assets or State commercial companies.

Finally, some private sector spokespersons advocate privatisation by claiming that the Irish public sector is too big, diverting resources from the private sector, and therefore, inhibits enterprise leading to higher levels of unemployment. A recent paper by Bill O'Riordan (UCD, *Perspectives on Economic Policy*, 1987) showed that for the period 1966–84

"1 There is no statistically significant evidence that public sector employment in Ireland was high or was growing faster by comparison with the rest of the OECD.

2 There is no statistically significant evidence that public sector employment militated against private sector employment or led to a higher level of unemployment”

5 ALTERNATIVES TO PRIVATISATION

We are likely to have, for the foreseeable future, a mixed economy. It is clear that privatisation of State assets and State companies would not contribute significantly to lowering the National Debt but would do long-term damage to the Irish economy. It is also clear that the Irish private sector, despite the range of grants and incentives available, will not develop large, strong companies with the scale, the technology and the marketing capabilities to compete internationally in high-productivity industries. We should, therefore, as a nation end this sterile and unproductive debate about privatisation and address ourselves to the productive contribution efficient public enterprise could make to generating wealth, creating employment and developing the economy.

The Programme for National Recovery, recently negotiated between the Government and the ICTU, ignored the calls for privatisation and instead provides that

“The State-sponsored bodies will be actively encouraged and facilitated to develop and diversify their economic employment-creating activities”

As provided for in the Programme, public enterprise should be expanded into the new high-growth areas of manufacturing industry, such as new technology and mechanical engineering, natural resource-based industries such as forestry and international services, in particular the export of engineering services, information services, broadcasting services and education and training services. Also, existing public enterprises should be revitalised and modernised.

It should be the aim of existing commercial State bodies and new public enterprises to conduct their operations efficiently and in a commercial manner. If losses occur which are the result of mismanagement or failure to respond to changes in their industry, the solution should be sought, for example, by way of restructuring and rationalisation. To achieve this, the social obligations of public enterprise should be properly costed and financed by the State, all State incentives and services available for private enterprise companies should be made available to public enterprise companies, public enterprises should be allowed to compete with private enterprise and they should not be forced to purchase at uneconomic prices from the private sector, political ‘hacks’ should not be appointed to State Boards and the possibility of expanding investment vehicles such as Irish Telecommunications Investments should be investigated.

Public sector workers and their unions will also work for change and to make public enterprises ‘centres of excellence’. Workers are not afraid of change.

when that change is efficient, dynamic and growing – public enterprise that creates new jobs and makes existing jobs secure – public enterprise that will benefit its workers, its consumers and its owners, the people