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PRIVATISATION COSTS PUBLIC DEARLY: REPORT

A report released today by The Australia Institute shows that the Federal Government's privatisation program has led to massive losses to the public purse.

Written by Dr John Quiggin, a Senior Fellow at the ANU's Centre for Economic Policy Research, the report is the first extensive analysis in Australia of the financial returns to privatisation. After analysing a number of actual and proposed privatisations, the report concludes that in many cases "the sale price is around 50 per cent of the present value of the stream of earnings foregone".

The Federal Government has repeatedly argued that sell-offs of public assets are essential to reduce public debt or to fund other programs. The new study shows that in the longer term, far from improving the budget position, privatisation makes it worse.

In order to estimate the impact of privatisation on the net fiscal position of the public sector, the analysis compares the flow of savings in public debt interest arising from privatisation with the flow of earnings that would have accrued in the absence of privatisation. In each of the case studies, it is shown that the savings in public debt interest associated with privatisation are insufficient to offset the loss to the public sector of the earnings of the enterprises concerned.

Dr Quiggin identifies several reasons for the loss to taxpayers from privatisation:

- assets are sold for less than market value because bureaucrats and politicians have a strong political interest in ensuring that floats are not undersubscribed;
- prices of public assets are lower because of the possibility that governments may tighten regulation in the future or renationalise; and
- investors appear to expect a return on equity higher than the bond rate thus reducing public sector net worth.

In addition, tax payers may lose from privatisation because an apparent reduction in the budget deficit may reduce the rate of public saving -- so-called fiscal illusion.

For further information contact: John Quiggin (06) 249 4605 (bh), (06) 248 8792 (ah) or Clive Hamilton (Executive Director, The Australia Institute), (06) 281 6566 (bh), (06) 247 5109 (ah)