

The “root and branch” review into Australian competition policy should be broad ranging. As the [Monash Business Policy Forum noted](#), the review needs to go beyond the competition laws and consider how to create an on-going structure for regulatory review. Government ownership is part of this review.

However, privatisation is simply one aspect of government regulation and ownership. [Supposed calls](#) by the Australian Competition and Consumer Commission for a ‘[big asset sell-off](#)’ risk derailing the competition review before it starts. Privatisation is, at best, a peripheral issue.

Why?

Economic research [has long shown](#) that the key driver of productivity is competition and not ownership. Government-owned businesses that face strong private sector competition operate similarly to those competitors. And simply privatising a fat, lazy, government-owned monopoly tends to create a fat, lazy, private monopoly, not a lean, mean productivity machine.

Rod Sims, the Chair of the ACCC, knows this, as is clear from his [comments on ABC radio](#).

So what can we say about government ownership and privatisation?

First, as [my research with Rohan Pitchford](#) has highlighted, incentives do differ between government-owned and private businesses. But it is not a case of “one good, the other bad”. In the absence of competition, either type of company is likely to be run by and for management. Competition, however, exposes bad management and provides the information and incentives for owners to act.

It follows that if an industry is competitive and there is no problem requiring specific government intervention, then there is no positive case for government ownership.

So should Medibank be privatised? Probably. It competes against private insurers and is regulated in the same way as those private companies. Selling Medibank would release government funds for use elsewhere (albeit reducing future dividend payments to the government). While a proper investigation is needed, there seems to be little case for the government owning a health insurance company.

Second, if competition is unlikely to operate in an industry and there is the need for specific regulatory intervention, government ownership might be a sensible form of intervention. However, the trade-off is between a regulated government-owned business and a regulated privately-owned business. Ownership and regulation must be considered together.

The key is the type of incentives that we want the business to face. Private ownership will increase the emphasis on profits and cost-minimisation. Public-ownership will raise the incentives to avoid risk and follow bureaucratic procedures. But sometimes, as a society, we do not want risk taking.

For example, consider emergency services. As a society we might prefer to have a fire brigade or ambulance service that can deal with very low chance events, such as a major terrorist attack. A government manager has incentives to “bulk up” for these low risk events. A private company, however, might prefer to save costs and take the risk of ‘running short’ in an extreme event. Socially, we may prefer that the government owns and operates our emergency services companies.

Third, as technology changes over time, the optimal ownership-regulation mix will change. When physical postal services were the key to linking Australia, there were good arguments for a national postal service that provided universal service at a uniform price. And government ownership may have been the best way to ensure that unprofitable areas in rural and regional Australia were properly serviced.

But those days have gone. The NBN will be providing superior service at a uniform price Australia-wide. The rationale for a government-owned Australia Post is fast disappearing and it should have its universal service requirements removed and be privatised as soon as the NBN is providing appropriate services to rural and regional areas.

Finally, if privatisation is to occur, timing is important. Public ownership provides an 'option' for government. Once a business is privatised, direct government intervention can be difficult. Often this is a good thing, as it reduces the incentives for politicians to interfere for short-term political gain. But in areas where there is a lot of uncertainty, waiting to see how the future unfolds before committing to an ownership-regulation mix, can be beneficial.

Electricity assets are a current example. In NSW and Queensland, the government owns both electricity generators and electricity networks. The state-owned generation assets should be privatized. They compete against private suppliers across the electricity market.

In contrast, [as I have noted before](#), the networks are facing pressures due to changes in electricity demand and technology. The book value of network assets may need to be significantly reduced if current falls in demand continue. In the short-term, privatising these networks risks committing to an undesirable regulatory scheme that will inflate power prices.

Put simply, now may be the worst time in a decade to privatise electricity network assets.

So the appropriate mix of ownership and regulation should be considered by the "root and branch" competition policy review. But this is a much deeper issue than simply privatisation. And it is only one aspect of the broader review that is needed into Australia's market rules, regulations and procedures.

Read more <http://theconversation.com/privatisation-in-australia-as-the-acc-opens-a-can-of-worms-what-are-the-lessons-on-government-ownership-and-regulation-21752>