

Experience Sheds Light on Chika's Share Give-aways

[Energy](#) | [Alan Moran](#)



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Mrs Chikarovsky's plans to privatise the NSW electricity industry tread a well-worn path. The triumph of the Victorian privatisation is no longer in dispute: the industry has vastly lifted productivity, and brought lower prices and innovative methods. The sales return to the State of \$22 billion is twice the industry's previously estimated worth. Importantly, the privatisation has removed the Government's business risk in an industry that now operates within a national market. That risk is clearly observed in the profit squeeze being faced by generators in NSW and Victoria alike. Government businesses are not well placed to handle such risks.

While New South Wales did not have Victoria's urgent need to repair its budget, Treasurer Egan recognised a bargain when he saw it. He pressed, unsuccessfully, for privatisation as a means to a net \$500 million a year budget supplement while removing revenue risk.

Mrs Chikarovsky may well have found a way to make this electorally appealing. The Coalition aims to raise \$25 billion with \$18.6 billion to pay off the State's debt, \$2.6 billion for a Millenium Fund and the same amount set aside for shares or a cash equivalent in the largest business. The shares are to go to each household as a customer dividend.

Privatisation by share give-aways are not new. They were the centrepiece of the Czech Republic's privatisation, now covering 90 per cent of the economy. Some 1,600 Czech enterprises were privatised in this way; perhaps coincidentally, the Czech Republic is widely regarded as the most successful post Communist economy.

Some have argued that the offer of \$1,100 of 'free' shares per residential customer is a bribe. Others have even threatened to refer it to the Independent Commission Against Corruption. There is a contradiction in terms in the notion of bribing people with their own money. Those making the accusations of bribery appear to be confused about the true ownership of these assets. Electricity businesses are not private fiefdoms of employees and politicians, they belong to all the people of the State.

The share give-away has dominated media and political coverage of the proposal to privatise the New South Wales electricity industry, but it amounts to only 10 per cent of the value of the industry.

The similar sums earmarked for the Millenium Fund sound enticingly like a knees-up kitty. But they actually combine infrastructure spending with a slush fund to finance, among other things, industrial winner picking. Surely the true owners of the electricity assets, the people of NSW, would find better things on which to spend this 10 per cent share of their electricity assets. On past evidence, the owners would benefit more from direct access to two sets of \$2.6 billion rather than leaving half of it under government stewardship.

Indeed, the individual ownership dividend should be even greater. While debt eradication is a worthy goal, what is proposed simply swaps debt for assets that the people own. The owners may be better off retaining a direct and sellable stake in those assets. The latest estimate by Ord Minnett values distribution/retailing and transmission at \$16 billion out of the total \$25 billion. Would it not be far preferable if some debt were left in the system and shares to the value of half these assets given to their real owners? Since government energy business's sale values when placed on the market have always proved more valuable than expected, this might give a nest egg worth nearly \$4,000 per

household..

The most important reason for privatisation is to have genuine businesses consolidate the industry's on-going efficiency and customer orientation. Competition under private ownership is the only way to sustain this. While we have government ownership, electricity firms have a muted incentive to pursue entrepreneurship and innovation. And, irrespective of the quality of government selected managers, in the final analysis, a government business is invulnerable to takeover---a rival business cannot put its own money on the line and buy out and transform a poor performer. Moreover, the public enterprise's board members are beholden to the government and remain susceptible to the same politically motivated decisions that in the past have undermined industry efficiency.

The key decision is to privatise this vital industry so it is best able to meet consumer needs at lowest cost, and handle the considerable business risk that the national electricity market entails. While the Coalition's proposals are not ideal, few privatisations have been worthless. The proposals may not warrant a resounding three cheers but they are certainly worth more than a polite 'hear, hear'.

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