A good price for the family tin?

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Selling the Family Tin? by Ross Clark

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When to use an SOE?

- A vexed question
  - Often in response to a crisis
  - Or driven by ideology
- Ross has provided a principles-based model, grounded in personal experience in the transport sector
- Application requires good information and diagnosis…

1993 (without perfect foresight)

- Rail losing money, and market share to competition (road freight, airlines, buses)
- Services and network had been shrinking for decades
- Rail needed capital for modernisation, but government was fiscally constrained
- Many governance and organisational models had already been tried
- A consortium, including an experienced international rail operator, believed they can make rail work – and were willing to put $400m at risk
- Looked like a great deal!

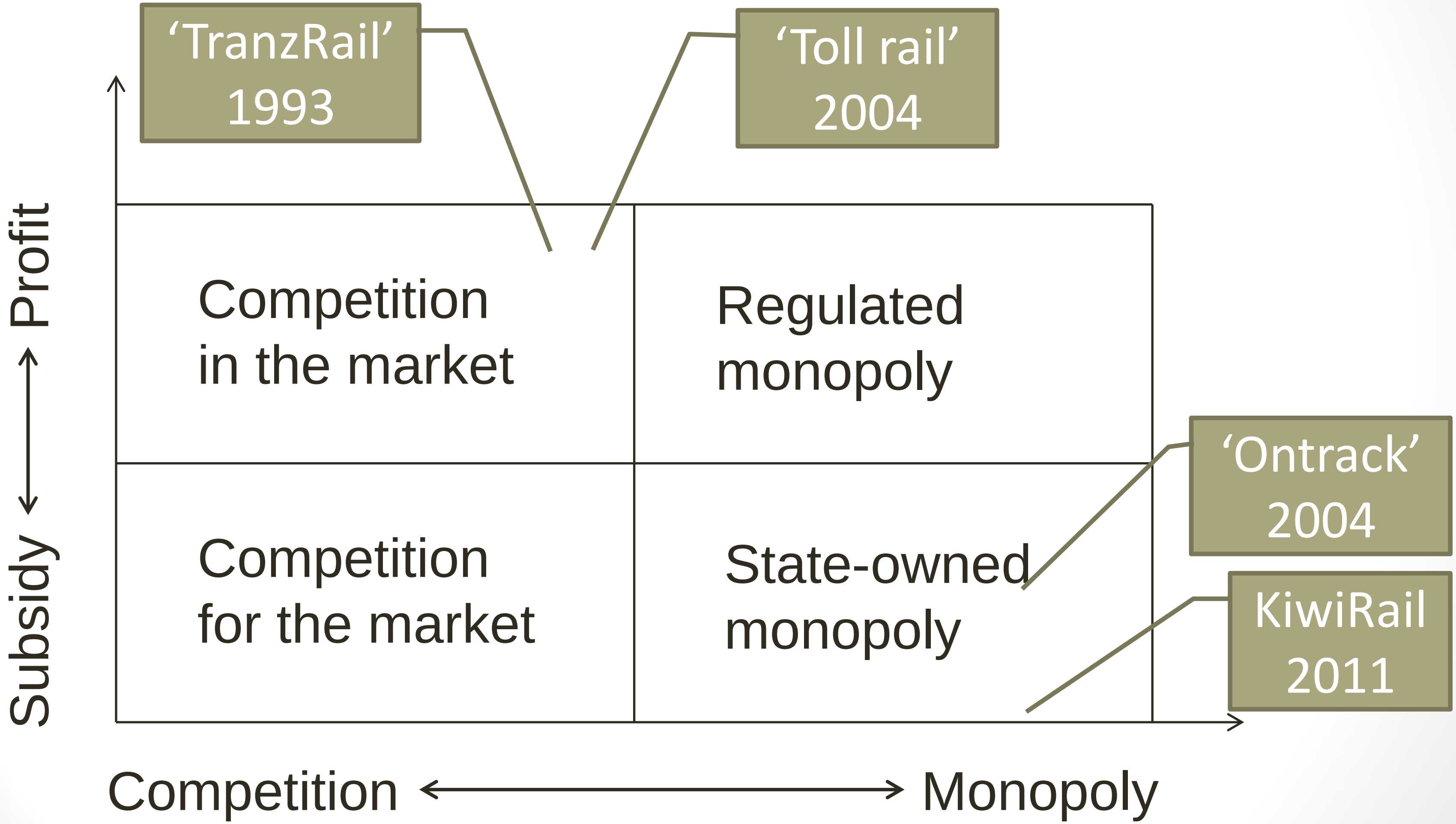
2004 (without perfect foresight)

- Rail still losing money, and market share to competition (road freight, airlines, buses)
- Services and network were shrinking
- Rail needed capital for modernisation, but private owner was near bankrupt
- Government had capital, but was risk-averse
  - Still believed above-rail business was profitable
- Structural separation looked attractive

2011 (with perfect hindsight)

- Rail *is not* a monopoly provider of freight and passenger transport…
  - But rail *is* a monopoly provider of certain *political* goods (thanks Ross!)
- Those ‘goods’ require the maintenance of the *extent* of the network and particular *activities* on the network
  - 1993 privatisation did not guarantee their on-going provision
  - Nor is rail not profitable enough to cross-subsidise them
- Therefore an on-going subsidy is required…

Clark (2010) model



Applying the model 1

- Was the 1993 privatisation a mistake?
  - What was the counterfactual?
    - Probably continuing closures and decline
  - Had the risks been understood, would a regulated monopoly have worked better?
- Was the 2004 structural separation a mistake?
  - Incorrectly assumed that rail operations were profitable
  - Under-estimated transaction costs

Applying the model 2

- Was the 2008 re-nationalisation a mistake?
  - Best model to deal with the ‘subsidy-dependent monopoly problem’
    - High cost to change models
    - High cost to operate model
- Is the taxpayer getting value for money?

Wrap-up

- Clark's model looks useful
- Application to other sectors looks promising
- But ultimately relies on good information and a principled diagnosis of the underlying situation