NEW ZEALAND INSTITUTE FOR THE STUDY OF COMPETITION AND REGULATION INC.

Partial Sale of SOEs

statism vs participatory democracy

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The Proposal

Sell up to 49% of the equity of the SOEs:

Meridian, Genesis, and Mighty River Power

Subject to

A 10% shareholding cap for any one other owner

Some NZ History

Deregulation of the 1980s:

Context: SOE Act (1986), State Sector Act (1988), Public Finance Act (1987),

Departmental structure -> SOE and other Entities

Market rules: Commerce Act 1986; electricity market from 1996

1988-1995

Some 25 State entities sold (with other sales) totaling $13b.

1996-

The existing SOE model in place since 1987

Three electricity SOE’s established in 1999.

Why Change Now?

What is the performance of the SOEs?

On transition to an SOE there was productivity growth (ISCR 1999): but what is the counterfactual?

The literature generally indicates

•superior performance from wholly or partially privatised firms; although actual performance is affected by regulatory settings

•government owned entities are at least as open to strategic behaviour that departs from being a “good business”

Why should the public be excluded?

Why Privatisation?

Improve firm and the economy’s performance

Outstanding firms must perform well in

The product market
The labour market
The capital market
The ownership market

State owned firms have limited instruments in labour and ownership markets particularly, but also in the capital market

Public Share Ownership

1. Increase scrutiny of organisation (including board) performance and strategy with traded equity
    1. Increase disclosure
    2. study by self-interested individuals/organisations

2. Enable a wider range of directors; and director choice evaluated more transparently

3. Enable a wider range of managerial employment contracts: important for long term investments

4. Enable investment proposals and actions to be tested more widely

Regulation enhanced

State owned firms have a less transparent objective

- May indulge in non-value maximising strategic initiatives
- Harder to design and effect regulatory rules

State owned firms provide less information

- Disclosure requirements are limited (even if exist for debt)
- Measurement of performance limited (e.g. no market valuation)
- Owners' views of actions not known or assessable

Other issues

• If priced fully on sale and the tax system works the government budget position will improve with improvement in firm performance

• Impact on the government budget is not THE factor: it is economic performance

• It means that NZ residents, and others, have the opportunity to invest in New Zealand domestic economic activity

• It means that there will be a wider range of NZ domestic assets to be held by the populace and potentially some improvement in liquidity in NZ financial markets.

Why ≥ 51% Government?

Plainly retains government/NZ control: various government levels of control can be achieved under various (quite common) arrangements

Provides politicians an interest in performance of markets and commerce in the New Zealand Economy: which has pros and cons

Informs governing politicians' knowledge of markets and commerce

Why 10% Cap?

Importance questionable given the Crown has ≥ 51%: should exclude any Government entity ownership

Limits product market concentration

Foreign ownership does not equal control: given the Crown's ≥ 51% interest

51% Government and the 10% Cap

Still no concentrated interest: beneficial Board debates/divisions?

It is A Widely Applicable Model

The reasons given and the state of NZ markets suggest that the proposed model would be usefully applied to

- NZ Post
- ACC
- NZ Super Fund
- Landcorp
- Solid Energy
- Transpower

Why Participatory Democracy?

• Under the present SOE arrangement members of the public do not have a direct interest in the SOEs; their views can only be expressed in the product and labour markets

• The present system is more connected to the political market than the ownership market: it is as though SOEs have no residual claimants

• Accountability is weak with such diverse ownership: especially when the firms need not keep owners (the populace) happy

• Partial privatisations enable public participation: expressing

- interest in
- views of
- having some considered influence on

critically important organisations in New Zealand

What is objectionable about Participatory Democracy?

Thank You