

**COMPETITIVE NEUTRALITY AND ACCESS TO
GOVERNMENT BUSINESS ENTERPRISES:
CAN ONE HAVE TOO MUCH OF A GOOD THING?**

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One of the deliberate consequences of such reform is that as a GBE moves down the path to reform, privatisation makes progressively more sense. The ideal here is competitive neutrality in which ownership is largely irrelevant.

The Proposal

I have no quibble with this agenda. I endorse it. My concern is not to resist the tide of privatisation – if we can't think of any good reasons not to privatise a GBE then we should privatise it.

Yet there does seem to me to be a perspective which has got a little short shrift in the

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Of course this is second best. We would like to see less monopolistic and restrictive behaviour than we do even where these tests cannot be passed. But the judgement is made, I think rightly, that we impose competition policy only where we are confident its benefits (in reducing the economic costs of monopoly) outweigh its costs (attenuating freedom of contract and increasing business uncertainty).

But why should we be so reticent in requiring business enterprises, which are fully publicly owned, to act in a way which is not monopolistic or restrictive?

What I have in mind is that a rider be imposed on the overriding objective we give to managers of wholly publicly owned GBEs. They would be charged with the task of maximising returns on funds subject to the additional condition that they not engage in monopolistic pricing or restrictive behaviour.

It would not be consistent with these instructions for managers to charge monopolistic prices and then dissipate the rents with technical inefficiency (including featherbedding of the workforce). Indeed the objective of maximising shareholder value requires the optimisation of technical efficiency but this would have to be maximised subject to the constraint that it be achieved without resort to monopolistic pricing or restrictive behaviour.

The extreme form of the 'principal-agent' argument is that GBE managers will do whatever they want regardless of the instructions they receive; that the government should save its breath in giving the GBE managers instructions and give them instead to their supervisors in this matter - the NCC and ACCC and ultimately the courts via the access regime. This may be right, but I would prefer to give the instructions to the managers in the first instance. If the GBE's management carries them out they will be carried out at lower cost than if they had to be imposed via another organisation complete with the legal paraphernalia which inevitably accompanies the imposition of access. In many circumstances and certainly early in the piece it may be necessary to impose strong external disciplines to ensure that the policy is put into effect. But the usual arguments apply for self-administration subject to external audit. It is even possible that some GBE managers might take pleasure in their role in maximising competition and using this to drive efficiency in their own organisation at the same time as the economy more widely.

economy. But CSOs typically relate to equity concerns. My proposal here is principally related to economic efficiency not equity although it does have the advantage that it should generally promote equity.

Another objection I have heard raised is that we may want to privatise the GBE at some later stage and accordingly it would be inappropriate to run it differently to a private organisation. This is a reasonable argument but one which should be treated on its

I use the example merely for illustration, not because I am planning any fights for access to Professor Fels' library – or indeed expect that a request for access at a reasonable price would not be considered sympathetically.

