Privatisation Policy

Privatisation is the return by sale, of state enterprises to private ownership and control
It was the intention in the UK that subsequent regulation of privatised companies would be as light and unobtrusive as possible. For this reason, the changes were sometimes called deregulation. In industries without big scale economies this was indeed possible. In industries such as electricity, gas water,telecommunications- more extensive regulation, with regard to structure not just conduct, is required whenever international competition is not vigourous
Privatisation was a response to the view that some state companies were not natural monopolies, and that even natural monopolies were better handled by arms length regulation that committed the government not to intervene perpetually
Transfer of ownership makes credible the fact that the firm does not have limitless government backing(although governments do bail out even private companies from time to time) for example it bailed out the rail companies and railtrack because transport is vital to the economy
Selling assets at a fair price leaves government wealth unaltered. If prospects of tougher treatment in the future lead to productivity improvements in state firms the government becomes better off when the productivity improves not when(or if) the firm is sold
Many privatised firms now face intense competition often from abroad. However , natural monopolies have aquired a new framework of regulation. This has favoured price capping, administered by independent regularity agencies (quangoes) and subject to periodic review
Increasingly, the UK has been driven to regulate not merely conduct but structure. This presupposes that some parts of a natural monopoly can be hived off and become suitable for competition. In practice, this has usually been down stream activities in a vertically related industry ie union of firms at different production stages in the same industry

Recent privatisations include
1British Rail (now taken back into public ownership as a not for profit organisation)
2 British Air Ways
3 Air Traffic Control
4 British Steel
5 British Gas
6 British Telecom
7 The Water Companies
8 And most Power Companies
To assess the effects of the present governments nationalisation policy we would have to take in to consideration the fact that we have a socialist government, one of whose key beliefs is that public ownership is the better way to run the country , although this government does not appear to be as hard line in that respect as previous Labour Governments

Arguments for Privatisation
1 Opening up production and consumption to market forces, increase competition, economic efficiency and consumer choice
2 Breaking down monopolies into more competitive industries and introduces competition into the goods market
3 Enables the privatised firms to compete for finance on the private capital markets both home and abroad
4 Ensures that firms become accountable to their shareholders and their desire for profit
5 Ensures that businesses are run on commercial rather than political grounds
6 Reduces the burden on the governments finances to support nationalised industries

Arguments against Privatisation
1 Privatisation may simply create private sector monopolies with high barriers to new firms entering the industry. There are a number of reasons why these might exist;
(a)The existing firm has significant economies of scale that new firms cannot compete as in the case of natural monopolies

(b) The start up costs for new firms are prohibitive
2 Privatised firms make decisions based on commercial profit maximising grounds. Nationalised firms make decisions in the public interest. If the government want to focus on poverty reduction and development then production can be organised appropriately. Privatisation may increase capital investment and reduction in the firms long run average costs
3 Privatising strategic industries means that government revenue will diminish as profits are directed to the shareholders, many of whom, in the case of multinationals live abroad, Lower government revenue may mean lower government spending on education and health etc

The possible effects of the policy on consumers

Consumers may have to pay less for goods or services due to the industries being opened up to competition Consumers would have more choice due to other firms entering the industry . they would also benefit from better service and after sales service because if the firm there dealing with can't supply the service they require they can take their business elsewhere

The possible effects of the policy on employees

As nationalised industries are government run, they are not profit driven .they are generally run in an uneconomical fashion with too many people being paid whether they do a days work or not. They are also likely to fall behind technologically as there is no motive for them to improve the industry. Socialist unions who when they were formed years ago had admiral and necessary aims to protect employees, and whose aim now seems to be to get as many people doing nothing as possible for as much money as possible while being paid out of the national purse are a big failing in nationalised industries as their employers (the government) usually back down to all their demands Employees would also have to forgo the generous pension rights associated to public service workers

On privatisation the new management would initially in the short term by necessity have to shed employees as they have to compete in a competitive market In time as the industry grows and employs more people the industry would change from being a drain on government resources to a contributor and everybody wins

Assess the possible effects of the policy on private sector organisations

If the privatised firms become more profitable extra government revenue may arise in the form of higher corporation tax receipts

It is argued, that the private sector has the spur of competition since inefficiency is punished with bankruptcy, A failed firm will go out of business and resources will be reallocated in line with consumer demand

A private sector firm may have to compete in financial markets for funds and has to persuade banks, and other financial institutions or its shareholders that its plans are viable

Greater competition may be created in the product market if an industry, which was run as a monopoly under state ownership, is split into competing parts, for example, separate telecommunication firms operating in competition with each other

Increased efficiency ; Managers of privatised firms will be freed from political control and interference—they will be able to charge the prices they regard as commercially appropriate and to make investments they think will produce the right return. The stock market will put pressure on private firms to be more efficient. If they are not performing well their share price will fall and they will run the risk of being taken over by another firm or fall into the hands of the receiver

Broadening of share ownership may be another effect of the policy on private sector organisations. The idea is to shift ownership away from the state and large institutions towards individuals (in reality most individuals who buy shares in under-priced privatisations sell their shares back to the large organisations almost immediately after the stock is floated on the stock market

Cost push inflation may be reduced. Private sector managers may be more reluctant to concede wage rises not matched by higher productivity and may be less willing to accept inefficient working practices

Private health companies have to compete against the hugely subsidised national health service There is no waiting list for treatment for their (private health) patients. Unfortunately this government whose policy is state control in this arena wont encourage more people to take out health insurance with incentives (tax breaks) Instead they abolished the tax relief on health insurance and prefer to pour money into a hugely inefficient public organisation . This money as it is usually unrelated to increased productivity (they seem to making some small demands in that direction lately) is largely wasted on pay rises and employing even more non medical staff) This is an example of party politics and beliefs being put before the needs of the consumer and even common sense. Also due to this policy workers are kept off work longer than necessary sometimes years and the cost to industry and the taxpayer are incalculable

Private schools have the same problems This government whose aim is to have everybody state educated and have equal opportunities may be an admiral goal but common sense tells us it is not feasible For this to work everybody would have to have the same intelligence level and everybody would have to be financially equal as this is impossible the likelihood is that ever pupil will end up equally uneducated. The latest news tells us were going that way fast with 40% of school leavers unable to read and write to a decent standard This will have grave effects on private industries who are increasingly in need of well educated workers

Assess the possible effect of the policy on Public Sector Organisations

Whilst selling off profitable assets raises revenue for the government and helped to cover a worrying PSBR (public service borrowing requirement) in the short term, it loses the future profit from these industries. Indeed privatisation has been likened to "selling off the family silver". If the loss of profits is greater than the rise in corporation tax resulting from privatisation, future government borrowing requirements may be larger. The government would have less income to spend on Public Sector Organisations to fund eg pay rises and improvements

The contracting out to the private sector of services paid for out of the public purse (egg refuse collection, street cleaning, hospital ancillary services, defence contracts, and more recently the governments use of private prisons run by the private sector) would possibly have the effect on Public Service Organisations of reducing staff (directly employed by the government) and Public Service Organisations would find it more difficult to justify their wage demands and working practices as their unions have little power in the private sector The public sector organisations will have to make themselves more efficient and cost effective or face losing more of their business to the private sector

The recent Fire Service dispute is a good example of what effects government policy can have on a public service organisation . The present policy of the government to link pay increases to modernisation of the Industry lead to a confrontation between the government and the FBU(fire brigade union) who took the view that they are worth a 40% pay rise without any changes in their working practices . The government, has to take a wider view. and with the fear that a pay rise of this size to the fire brigade would spark off large pay rise demands from other organisations in the public sector which would cause inflation to rise and leave the government no other option but to raise taxes or increase the PSBR would not give in to the firemens demands. The FBU called a strike (after a ballot of its members voted to back strike action). The resulting press activity caused to come to light the inefficient , expensive and outmoded practices of the fire brigade and they have begun to lose public support and will probably have to accept a deal far less than they demanded This policy by the government could have the effect that private organisations and councils eg would hire private fire cover (as they have seen that the governments organisation is not totally reliable) and in the long run could do away with the need for a government run fire service all together

It could be argued that this dispute has an other motive. This policy of modernisation which usually means cutting costs, one way of doing that is by cutting the unnecessary elements of the work force. This is the last thing the FBU want as they would end up with less members, less credibility and less negotiating power The hidden motive for this action by the FBU could be to bring down this government and replace it with one with a more sympathetic attitude towards their way of thinking (heaven forbid) if they were successful in this aim the possible effects on the public sector organisations would be good for all those who are employed in the public sector in the short term but catastrophic for the general public as a return to the pre Thatcher years of unelected unions practically running the country, instead of the elected government, would rapidly occur. The unions would then swiftly reach their objective of equality for everyone but it would very likely lead to everybody being equally poor which would lead to the government being unable to pay for public service organisations including the armed forces and police force and anarchy would reign. So a possibility of this government policy on public organisations is that they could go out of existence (or is this too far removed to answer your question?)

The last Conservative Governments Privatisation Policy was more or less to privatise every organisation that was not necessary to the countries security eg armed services police force . This policy of throwing

open to competition most of the public organisations would no doubt lead to more efficient and cheaper services to consumers in the long run In the short run mainly due the run down state of some public organisations (eg British Rail) due to lack of investment by the government some organisations would need a period of time to convert to private ownership and readjust to the needs of a private company in a competitive market This policy would possibily lead to lower general taxation as the governments costs would be greatly reduced and a decrease in PSBR. With less debt to service the government the government would have more of its income to spend on the less fortunate in society (egg pensioners, the disabled,) and looking after the environment (eg cleaning up pollution, planting trees) unfortunately this government didn't retain power long enough to complete its policy. This policy would have the effect on pubic organisations of forcing them to modernise or face privatisation
The policy of selling council housing stock to residents has lead to councils who in the main charge less rent than the private sector due to fact that they are subsidised by private home owners should in theory have meant the would have more money to spend on eg rate cuts especially for local businesses. The previous housing policy which was designed to house the needy was taken advantage of by some of the general public who could well afford to buy their own home. This policy which was costly to run and maintain, when changed should have meant that ,theoretically the council which is a public sector organisation should have been able to divert the funds aquired from the sale of houses and saved from maintenance costs to cut expenses for other customers . In reality they always seem to be able to throw away any amount of money. Usually to fund pay rises to themselves or fund the generous pension provisions they receive from being employed in the public sector
Theoretically an effect on the councils this policy should have had is to lessen the responsibility on councils in this area and enabling them to cut staff in this department

The governments preference at the moment seems to be PPI's (public private initiatives). This entails the government using private companies and private finance to carry out the work (eg building a school or hospital) and maintain it for a set period of time. Some say that this is gaining good value for public money. Others say that it is the actions of a desperate government putting of payment of high capital projects . The experience of anybody that has had a mortgage which this effectively is where you can end up paying three times the actual cost of the procurement lends one to lean towards the later belief
The effects this could possibly have on public organisations is that they would have no part in running these aspects of the project (maintenance or providing services) during this period and the money saved could used to pay off interest to the banks who supplied the cash (whose the winner?)

Sources
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