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Privatisation, Myopia and the Long-run Provision of Economic Infrastructure in Australia

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Abstract

The privatisation of economic infrastructure in Australia that began in the 1980s has continued to be actively pursued by state and federal governments. Evaluations of the effects of the change of policy, ownership, control and regulatory arrangements that have accompanied privatisation and their impact on the longer-term stock of infrastructure and the growth of the economy have received less attention than the immediate privatisation decisions. This article reviews some of the studies that have been carried out to evaluate the impact of privatisation, focusing on long-term impacts on infrastructure provision. In particular, it discusses the myopia created by the emphasis on commercial transactions and managing markets that continues to shape the debate about the provision of infrastructure to meet Australia's economic, environmental and other objectives. Objectives have become even more difficult to achieve as an increasingly extensive and complex regulatory framework is required to manage privatised activities. This adds to costs and limits the potential for the introduction of new initiatives to address pressing problems. The issue is increasingly relevant, given the current perceived shortage of infrastructure and the flow-on effects of the current international financial crisis on Australia. The slow-down in economic growth accompanying the financial crisis is putting pressure on government budgets and threatening to perpetuate the existing policy bias towards short-term solutions, exacerbating the longer run problem of ensuring an adequate supply of public economic infrastructure.

Introduction

The onset of the global financial crisis in 2007 has been transmitted into the economy as a slowdown in consumption, investment, growth and employment in Australia. In this context, it is timely to revisit the validity of the arguments for privatisation and outline the impact of the extensive program that started in Australia in the 1980s, accelerated in the 1990s and still continues (Aulich and Wettenhall 2008: 57). It is important to assess whether the justifications for

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privatisation continue to have validity in terms of the outcomes of the policy. A key issue is whether new public infrastructure investment will extend policy horizons beyond short term market considerations; whether it will avoid some of the direct and regulatory costs of the previous policy and crucially, if it will lead to the injection of new investment with a long term benefit at a crucial time in the economic cycle, to help sustain employment and economic growth.

This analysis will show how the program of privatisation changed the policy priorities of governments, from the long-term provision of public infrastructure to underpin development, to the short-term goals of the realisation of budget surpluses, the retirement of debt and the realisation of short-term efficiency gains in the delivery of services. Privatisation has been successful, to some extent, in achieving these short-term financial goals, but it has also increased the longer-term costs and also the complexity of regulatory supervision required in the establishment and administration of new quasi (managed) markets for public services. In the process, privatisation has entrenched new monopolies in the Australian economy and undermined the legitimacy and role of new public investment in infrastructure.

Over twenty years have now elapsed since the start of the program of privatisation in Australia. The monetary impact of the program has been valued in terms of the sales of government business enterprises (GBEs) alone of $113b between 1990 and 2007 (Chester 2007). If other forms of privatisation like contracting-out of public services and the use of public/private partnerships are taken into account, the actual value is significantly higher than this amount (Aulich and Wettenhall 2008: 68). Other impacts of privatisation, such as its effects on the regulatory framework, pose important challenges to the maintenance of acceptable standards of governance, accountability and transparency in governments in Australia (Johnson 2007). These concerns are not only issues in the provision of infrastructure but extend far beyond it, to reflect the changing role of the state (Chester and Johnson 2006).

To manage the effects of privatisations, successive governments have built an extensive, complex, costly new regulatory framework to govern entry and exits from new markets, investment and prices. The consequences have been mixed. They include the provision of some new services , regular government budget surpluses at both the State and Commonwealth level and a reduction of public debt. They also include an increase in private debt and a significant and growing under-supply of new infrastructure investment by both the public and private sector. It will be argued that this under-supply of infrastructure is generated by a myopia in policy making created by the process of privatisation. This is likely to become more important as governments urgently seek short-term domestic economic policy solutions through public investment in infrastructure, to the challenges of maintaining growth and development in Australia in the current economic environment.

While there have been many academic studies, interest group papers and government reports advocating the major program of public sector infrastructure privatisation, studies evaluating the cost and longer-term effects have been much less common. The studies that have been undertaken (Wettenhall 1999;

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Walker and Walker 2000; Considine 2001; Collyer et al 2003) have provided important insights into the transaction costs of the privatisation program and the impact on services. There remain, however, important gaps in our knowledge of the process of privatisation, particularly its long-term effects such as under-investment in infrastructure (see for example Reserve Bank of Australia 1997). The interests of shareholders of privatised government business enterprises (GBEs), in contrast, have been constantly reviewed after privatisation by financial markets, while the long-term impact of privatisation on the employees of the privatised entities and on broader issues such as the training of skilled labour, have received much less attention. The impact of privatisation on levels of employment and training are also important and the evidence is that both fall in enterprises after privatisation (Toner 2003; Steketee 2008; Aulich and Wettenhall 2008: 71).

It is reasonable to inquire why evaluation of privatisation is now particularly urgent. Governments in Australia since European settlement have, after all, continuously engaged in privatisation to dispose of services, assets and businesses they no longer required, or to obtain goods and services. However, there has been a major increase in the scale and scope of privatisation in recent times, as the public sector has increasing contracted-out its services and programs, in addition to an ongoing program of selling government business enterprises (GBEs). Further, there has been a continuing reluctance to acknowledge the important role that the public provision of infrastructure services can and should play in long-term human and physical capital building — a process that also contributes to increasing the productivity of the private sector (Aschauer 1989; Otto and Voss 1995). The main difference from the past has been the conversion of influential policy makers to a strong philosophical view supporting privatisation. This view privileges the private provision of goods, services, rendering axiomatic the assumption that, all other things being equal, private is better than the public provision. The question here is why is this so?

This conversion in ideas, values and policy priorities, has led to a changed perspective by bureaucrats and politicians on the responsibilities and role of government in general, and in the provision of infrastructure in particular. Governments' longer-term responsibilities of playing a leading role in building the human and economic infrastructure capital stock required for growth and development have been replaced by a concern to increase the level of economic competition in the Australian economy (Hilmer 1993) and to generate government budget surpluses. This strategy has led to a neglect of the warnings by increasing number of public and private economic analysts, who are identifying the emergence of an infrastructure 'deficit' as a priority policy issue.

Among the gaps in the published research on privatisation, is a dearth of studies of the effects of privatisation on long-term investment in a range of industries and sectors (Chester and Johnson 2006). In turn, where significant sectors have been privatised, like those infrastructure-providing sectors identified as being liable to shortfalls, the scale of that shortage, and its costs, inflationary and growth effects remain largely unknown. The Council of Australian Governments (COAG) announced in late 2008 that it had called for an interim

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report of a 'national infrastructure audit' and an 'infrastructure priority list' of potential investments in infrastructure, over a decade after concerns were first expressed about a growing infrastructure shortage (Johnson 1992; RBA 1997; Chester and Johnson 2006). This delay represents both a reflection of government priorities and an underlying faith in the autonomous forces of supply, demand and private capital being able to fix the deficit in investment in infrastructure.

In summary, the program of privatisation has changed the values, priorities and functions of government in every jurisdiction, through the displacement of the long-term direct provision of infrastructure services with short-term contracted services supplied by private and 'not-for-profit' organisations. This myopic policy stance has been held despite public investment in infrastructure being recognised as potentially a major contributor to increased productivity, and the shortage acting as a major constraint on Australia's economic growth and development (CEDA 2004; BCA 2005). Such constraints threatening to compound the impacts of the global financial crisis that started in 2007 on the economy of Australia. The likely result of privatisation, it is argued here, is that this policy orientation has served to undermine the capacity of government to invest in physical and human capital; deliver its existing programs and pursue the goal of securing the public interest (and its implied goal of improving the level of general welfare) in a range of areas, including infrastructure.

The Advocacy of Privatisation

Privatisation can be seen as the process of the transfer of the public provision of goods, services and the functions of government to the private and not-for profit sectors. Some, like Aulich (2008: 58), go so far as to see privatisation as:

> An array of ways in which there are substitutions for government-*owned*, government-*funded* and government-*provided* services by non-government agencies and private funding mechanisms. (author's emphasis)

This definition alerts us to the fact that privatisation is a wide-ranging policy with both active and passive dimensions to it. Other definitions are much more narrowly focussed and the reasons for the variations adopted usually relate to the scope of the study being undertaken and the purposes for which the privatisation in question is being advocated. A key characteristic of the early studies of privatisation was the narrow definition of the process adopted for analytical purposes. Thus, while recognising privatisation has economic and political dimensions, one of the few survey articles that has been done of the effects of privatisation defines it narrowly as 'the deliberate sale by government of state owned enterprises' (Megginson and Netter 2001: 321).

Others have recognised the broader philosophical and political dimensions of privatisation explicitly, but then excluded them from analysis. The influential 1986 study by Domberger and Piggott stated:

> Government policies involving the transfer of assets or activities from the public to the private sector have become prominent in the policy

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> debate. 'Privatisation', as this process has come to be called, is inevitably associated with the desire for smaller government, and is thus a politically charged term. (Domberger and Piggott 1986: 145)

The authors then went on to say in relation to their study that:

> ... we have deliberately chosen to keep our task tractable by restricting our analysis of privatisation to policies designed to improve the operating efficiency of public sector enterprises through increased exposure to competitive market forces. (Domberger & Piggott 1986: 145)

The measurement of operational efficiency (usually defined as cost efficiency) is of course an important aspect for assessing the overall efficiency and effectiveness of public services delivered through government business enterprises, or any of the other channels through which public services are delivered. In practice this focus also served to limit the discussion to the short-term microeconomic effects of privatisation.

Privatisation was continuously advocated as bringing a range of microeconomic benefits (Domberger in Forsyth (ed) 1992). In particular, the goals of reforming the management, ownership and control of public business enterprises through the introduction of corporatisation and then privatisation were presented as addressing perceived inefficiency, over-staffing and low rates of return on capital investment in public business enterprises. Publicly owned service providers were seen as presenting barriers to the entry of private sector competitors and investment to the fields in which they operated (Domberger and Piggott 1986: 148; Pincus in Maddock and McLean 1987: 316). As Domberger argued, Australian public enterprises had 'unclear and sometimes conflicting objectives, ineffective control and performance monitoring, and [were] subject to the institutional constraints that were inherent in Australia's federal system of government' (Domberger in Forsyth (ed) 1992: 167–168). These arguments have justified an extensive program of deregulation, corporatisation, franchising and privatisation, while any social costs from, for example, the private enterprise ignoring externalities have been ignored.

The Short and Long-run Costs and Benefits of the Process of Privatisation

Advocates of privatisation policy accept that the potential short and long-term benefits available from privatisation depend on the nature and quality of the privatisation process itself (for example, from the selection of the right privatisation strategy from the range available, such as a sale of assets versus some retention of public control through the adoption of franchising, contracting or public/private partnerships). The transaction costs involved, which include preparing entities for sale (as identified in King 1995) and the costs of the sale process itself, have been considerable both in Australia and overseas in countries like the United Kingdom (see the case of water privatisation in the UK in Johnson 1992).

Walker and Walker noted in their 2000 study of Australian GBE privatisations in the 1990s, which they valued at $95bn, that the transaction costs

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of these privatisations were very significant indeed. They estimated that the cost to governments and taxpayers of the privatisation of the Commonwealth Serum Laboratories (CSL), the Telstra first tranche and the New South Wales Government Insurance Office (GIO) simply from the sales of undervalued assets, consultants and marketing costs, underwriting costs and the social costs of loss of public services amounted to billions of dollars (Walker and Walker 2000: 224–274). In turn, any short-term benefit in capital and reduction of the level of public debt (as discussed below) was received at the cost of the long-term flow of dividends to government of these enterprises; while the tax benefits from private sector dividends was partly removed by the reduction in the corporate tax rates and the introduction of tax imputation on the dividends received by shareholders.

Short-term efficiency gains can potentially be made by introducing markets and competition in some large-scale industries undergoing technological change and diversification. This was the case in telecommunications industries in 177 countries between 1990 and 2001 as shown by Li and Xu (2004) Their study of telecommunications reform included the effects of the privatisation of state enterprises and the introduction of competition from the introduction of new technologies and service providers (2004: 32). The authors found service prices on average, across the sample studied, did not rise significantly and service use and density increased (2004: 409). Whilst they did find that 'full privatisation increases output and prices', they attributed this result to the increase in the range and quality of services offered as a result of the new technologies available in the industry (Li and Xu 2004: 413). In summary, Li and Xu argued that industries that are undergoing a rapid process of technological change, offer increased access to services and lower costs through a reduction in the advantages generated by scale that allowed the introduction of new competitors to the industry (2004: 407). However, despite an overall improvement in access to services, they were unable to specify many of the detailed or long-term welfare impacts of the changes on either the labour force or consumers despite the fact that they might be significant (Li and Xu 2004: 427). They also concluded that whilst privatisation resulted in increased investment in the sector, some of this investment was wasted over-investment and evaporated in the 'tech wreck' of 2000. This is a powerful reminder to advocates of privatisation such as Michael Keating who, in a recent article, attributed public infrastructure investment failures like the Ord River irrigation scheme to 'our tendency to suspend our critical faculties when it comes to infrastructure investment' (Keating 2008: 231) without reference to the capital and jobs lost by more recent private sector investments in telecommunications ventures.

The efficiency outcomes of reform in other large scale, capital-intensive industries subject to privatisation have been much less obvious. Steiner's 2001 multi-country study covering ten years of electricity reform in some OECD countries showed that for industries like electricity which have been extensively restructured and partly privatised, it was difficult to measure performance data covering the pre and post-sale periods of privatisations (Steiner 2001: 164). Measurement is complicated by the fact that there was evidence

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that assets were 'dressed-up-for-sale' before privatisation and that liberalisation of regulation was used by some governments to increase asset prices (Steiner 2001: 171). This is reinforced by sampling problems, identified by Walker and Walker (2000), associated with the tendency of to privatise better performing firms. Megginson and Netter in their study of privatisation recognised 'difficult methodological problems' in assessing the effects of the divestment of state owned enterprises (Megginson and Netter 2001: 346ff). Steiner's OECD study concluded 'that regulatory reforms involving vertical separation of the industry, market price determination and privatisation impacted favourably on efficiency'. The first of these effects appeared more important than the other two, to the extent that it was possible to disentangle the effects. Further, sustaining any gains 'depends crucially on the ability of regulatory policies to control market power after reforms have been implemented' (Steiner 2001: 176). However, the long-run costs of the complex regulatory system and institutions needed to build and sustain markets for electricity were not factored into the calculations of the long term benefits of the privatisations.

These studies measuring the operational efficiency of specific organisations, do not indicate, even in those cases where the reforms led to higher levels of private investment, whether the level of overall national investment in infrastructure and public services is optimal, in the long-run. Further, these comparative studies are not sufficient of themselves to enable an evaluation of whether or not a service that is seen as desirable by government or the community should be publicly or privately delivered. The way public services are delivered, and to whom, have very important economic and social impacts and should be measured. Privatisation has strong distributional effects (with economic consequences) for individuals and organisations of all kinds, including governments, as is discussed further below. This is true for both large and small-scale localised enterprises, as indicated in a 2003 Australian Capital Territory study by Collyer, Wettenhall and McMaster (2003: 21). Ignoring questions about the contentious long term distributional and political impacts of privatisation and its impact on the role and capacity of governments however, has been a general characteristic of the debate about privatisation in Australia.

Despite the lack of substantial evidence that privatisation always brings with it economic efficiency gains, the sale of publicly owned enterprises by the states and the Commonwealth Government has continued at a high level in Australia. Australia Post and Medibank Private are currently being considered for privatisation (Aulich and Wettenhall 2008: 68) at the Commonwealth Government level and the distribution (though currently not the generation) of electricity by the New South Wales Government (Owen 2007: 1–7) are slated for sale. Other planned privatisations include the 2007 announcement of the intention to sell the gas assets of the Queensland Government (ABC 2007) and the sale of all water resource assets in all jurisdictions in Australia has had its advocates (The Age 2007). Given potential scenarios for the future scarcity of water, these assets may have to be re-nationalised by governments funded by taxpayers, in the public interest of protecting the environment and securing domestic supply. The privatisation of GBEs is not the only sphere of privatisation. Franchising,

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contracting and public/private partnerships of new infrastructure are being extended throughout the public sector (Chester and Johnson 2006) and have received even less analytical attention, with the work of Mulgan (2008) one of a few exceptions. One reason for this is the difficulty of obtaining data, which is often classified as 'commercial-in-confidence'.

Despite the continuing high level of privatisation, evaluations of the impacts and outcomes of the policy and programs of privatisation have continued to be limited. The exceptions have included Aulich and Wettenhall's study of the Liberal government's recent privatisations which focussed on their impact on the functions of government, particularly on the government's long-run capacity to develop a 'whole of government' approach to complex problems (Aulich 2005: 60; Aulich 2008: 57–68); and Chester's research of the effects of the restructuring of the electricity industry (Chester 2007). Given the scale and importance of the privatisation program to consumers and to the economy more generally, it is therefore surprising that the long-run impact has not received more attention.

The Costs of Regulation

Early proponents of privatisation did recognise that regulation would need to be introduced in cases where market power could be abused (Domberger in Forsyth (ed) 1992: 167–168). This was a concession to the fact that arguments for privatisation could not be restricted to its short-run effects on the price and quality of goods and services alone, but should be widened to take into account a whole range of other impacts. Governments in turn accepted some aspects of the obligation to regulate competition, through the establishment of the National Competition Policy, a reformed Trade Practices Act enforced by the Australian Competition and Consumer Commission (Hilmer 1993). The institutions for the regulation of competition in the short-run, required the additional creation of a range of new long term institutions to promote competition, such as those regulating the national electricity market, water and a range of public and private infrastructure services in the states and Commonwealth (Chester and Johnson 2006).

The realisation that any case for privatisation should consider the size, viability and effectiveness of the regulatory regimes needed to manage privatised activities was continually flagged in earlier debates about privatisation. For example, Kriesler (1996) in opposing the privatisation of Australia's major airports, argued — albeit without success — that they would continue to have strong monopolistic characteristics after privatisation, requiring strong, costly and continuous regulation. The question arises as to why the evaluation of such impacts did not occur earlier. A number of explanations can be offered, starting with the narrow terms used to define and analyse privatisation when it was originally justified.

Other privatisations' regulatory requirements were also insufficiently assessed. For example, the privatisation of Telstra and the entry into the telecommunications market of Optus and a range of new service providers had a major impact on the regulation of telecommunications and has affected every

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user of telecommunication services in Australia. The range of services available in the sector has expanded significantly and costs have been constrained by regulation. Yet the regulatory framework for the sector as a whole, in which there are significant monopolistic elements entrenched in the private ownership and control of trunk services, has not been resolved. Neither has the issue of ensuring reasonable access to a full range of services by current and future competitors. A significant element of public ownership also continues to exist through the significant shareholding in Telstra of the Commonwealth Government's Future Fund. The Future Fund itself resurrects the public ownership of private entities in a different form, contributing to the stock of public savings, but with an unclear role in relation to increasing the level of public investment in infrastructure Australia.

Governments have regulatory (Braithwaite 1999) and longer-term development roles that are social, economic and political in nature. The interaction of privatisation with these goals is often not acknowledged. An exception has been Michael Keating, the former Secretary of the Commonwealth Department of Prime Minister and Cabinet who, in various key offices during his career, strongly advocated privatisation through the contracting-out of a wide range of human services. Some of these, like health, education and training are infrastructural in their characteristics, and contribute to short and long run human capital building (Johnson 1995). Whilst he saw privatisation as part of a core strategy of 'marketising' government activity, Keating argued that it should be coupled with the establishment of an appropriate regulatory system. Such a system was needed he stated to ensure that competition did, in fact, regulate the newly-created markets (Keating 2004: 75). He believed that governments can maintain accountability, policy and program capacity, and flexibility through the medium of a system of publicly controlled but privately delivered public services (Keating 2004: 99ff).

For those activities still retained in the public domain and delivered by GBEs, Keating suggested a range of management measures to control them, like the setting of targets on the rate of return on capital, and the separating the delivery of the community service obligations of government from commercial activities (Keating 2004: 54–57). He then went on to advocate the further 'marketisation' (privatisation) of a wide range of public social infrastructure including housing, universities, education and health services that also implicitly involved a level of contracting out of service delivery (Keating 2004: 102–112). However, extending this form of privatisation serves to undermine expectations about the short-term roles and capacity of governments in relation to delivery of services, while ignoring the obligation to rigorously assess all the costs and benefits of each privatisation proposal and to establish either a comprehensive system of long-run regulatory capacity or the resources and institutions to ensure accountability (see Johnson 2007).

Related to this are broader questions of the impact on the role of governments. As Considine frames this issue, 'the new strategies of governance at ground level are most defiantly phenomena which raise profound issues about the larger significance of public programs and of the nature of the public sphere

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in this era of de-traditionalism and 'sheer flux' (Considine 2001: 167). A policy environment favouring privatisation has added significant complexity to public decision-making (Johnson 2007). Public decision-making must now include a clear separation of the public interest dimensions of decisions from commercial goals — a separation that is difficult to maintain in practice.

In summary, the evidence indicates that the advocates of privatisation have attempted to oversimplify the issues associated with privatisation. They have done so by simplifying the nature of the activity analysed and the scale, scope and complexity of the management and regulatory controls required to manage it in the public interest. In other words, the costs associated with privatisation have been significantly downplayed.

Privatisation, Debt and Investment

Part of the justification for privatisation was the opportunity it provided for reducing the level and cost of public debt, and the size of government in the short-term. Privatisation was adopted because it could, it was claimed, solve both the perceived economic 'efficiency' problem in the delivery of public services and also the short-term macroeconomic problems perceived as besetting all levels of government, relating to high levels of public debt. Although it achieved the latter, it did, so by contributing to a rising level of corporate debt, which was used to purchase the assets on offer. In addition, privatisation possibly contributed to the growth of private debt as infrastructure users were increasingly charged for services they had previously received either for free or at subsidised prices.

Successive Liberal and Labor Governments in Australia at all levels, from the early 1980s, adopted the principle that the primary role of government was to shape policy, adopting fiscal conservatism in relation to limiting public debt and generating surpluses from its own operations, while privileging the private sector and the market as the dynamic element in the economy. The results were positive in terms of short-run macroeconomic outcomes for governments in generating sales revenues, fiscal surpluses and a reduction of the levels of public debt in all jurisdictions. An estimate of the value of privatisation of GBEs in Australia from 1990 to 2007 put the value of the sales at $113bn and notes that 70 per cent of the proceeds, if Telstra is excluded, accrued to state governments. An estimated 27 per cent of proceeds were received from the sale of electricity infrastructure (Chester 2007: 334). Victoria adopted the most radical reforms, aimed at privatisation of GBEs and reducing the role of government more generally through introducing a 'contract' state (See Alford et al 1994: 4). It may also have reduced the range of public services delivered and in effect, in the view of some observers of the process contributed to a 'hollowing out' of the capacity of the state to manage the economy (Rhodes 1994).

The proceeds from electricity asset sales in the case of the state governments of South Australia and Victoria were used, Chester's study shows, primarily to retire state debt. Michael (2006: 168 citing Webb 2004) reported a reduction of state debt in the case of Victoria as a result of the Kennett Government's privatisations from 30 per cent to 1 per cent of state gross domestic product. The

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dividends from the electricity assets not sold, in states like New South Wales were maximised to sustain short term government revenue, at the probable expense of new investment in the sector (Chester 2007: 345). The longer-term economic cost was a significant drop in total public investment (see Chester and Johnson 2006: 12); an increase in corporate and private debt; the emergence of a significant economic and social infrastructure deficit (Committee for Economic Development of Australia 2004; Business Council of Australia 2005) and an increase in cost to consumers of services like transport, health and education.

The Reserve Bank of Australia reported in 1997, that Australia had one of the largest programs of privatisation in the OECD worth an estimated $ 61bn. in the period 1990 to 1996 and that the policy had the effect of reducing the stock of all governments debt substantially and increasing private financing of infrastructure (RBA 1997: 7–16) though it noted by 2005, not at a rate sufficient to address the longer run capacity constraints appearing in the economy (Reserve Bank of Australia 2005). Infrastructure shortages became more evident after 2000 in a number of key sectors of the economy, particularly transport (Chester and Johnson 2006: 8ff). The emergence of the infrastructure 'deficit' reflected the fact that the attention of governments were clearly focussed on generating the clear short-term budgetary benefits of privatisation, rather than analysing the broader longer-term consequences of the process on government, business and the community or recognising the longer term constraints that a lack of investment in the infrastructure stock would impose on the economy. This outcome obviously cannot be ascribed wholly to the policy of privatisation, but can be clearly seen to be linked to it, as governments focussed on the short-term budgetary goals of balancing their budgets rather than the longer term social and economic goals of ensuring that social and economic infrastructure bottlenecks did not constrain growth.

Privatisation and Development?

Since the 1980s, privatisation has moved progressively from financial services that were delivered in an oligopolistic environment (like banking services); to economic services that have strong monopolistic characteristics (like energy and water) to a wide range of human services infrastructure (like employment services and disability services) delivered by a range of 'profit' and 'not-for-profit' providers. The program of privatisation has progressed from the sale of public enterprises through direct, partial or trade sales to the private sector; the partial or complete flotation of enterprises on stock markets to now including the franchising of the provision of public services (contracting out and in) not only to the private sector, but to the not-for-profit sector as well. It now encompasses governments divesting themselves where possible of responsibility for delivering part or whole of the provision of infrastructure.

The reforms have had an impact on the capacity, including crucially the public policy making capacity, of governments in relation to achieving goals such as establishing the regulatory structure for a market system that itself can only really operate efficiently in the long run in a real competitive framework

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(Michael 2006: 165ff). For the idealists supporting the market provision of infrastructure this could and can in the future be achieved because:

> … in a free market where price reflects the costs of production we can reasonably be confident that demand will equal supply, at least over time. When there is excess demand and a shortage, the price will rise and investment will fairly rapidly respond to increasing returns, so the shortage disappears. (Keating 2008: 232)

For the realist, with a longer time horizon, a competitive framework is difficult to design and sustain for industries like energy, water, rail transport, health and education. These are characterised by monopolies or oligopolies and entail significant social costs and externalities that cannot be costed properly (Johnson 2001). The financial, service and other risks associated with service delivery cannot be easily transferred out of government.

Originally, the stated aim of privatisation policy was to reduce or avoid some of the inefficiencies and misallocation of resources claimed as inherent in the delivery of many public infrastructure services. There is unclear evidence that this aim has been achieved, after more than two decades of privatisation. The long term costs and difficulties of building and regulating 'markets' are not taken into account in the studies included here, Privatisation has not received the research attention it deserves, given its size and scope and its impact on those in receipt of, or subject to services that have been privatised. The analysis of costs and benefits of the sale of public enterprises and contracting-out that occurred at the end of the century (Walker and Walker 2000; Considine 2001) has been followed-up with a very limited range of studies of the privatisations that occurred since 2000 (exceptions are Wettenhall, McMaster, Collyer, and Thynne 2005; Aulich and Hein 2005; Chester 2007).

If the impact of privatisation at the microeconomic level has not been adequately researched, neither has the impact of the large and continuing program of privatisation on the overall level of public investment. Public debt has been reduced and there is room for new public investment in key areas where the public provision of infrastructure can reduce the cost of services and improve the capacity for economic growth and development of the economy as a whole. A recent Council of Australian Governments report, *Australia's Infrastructure: National Overview Report* of 2007 recognises that there is serious shortage of infrastructure and observes 'the role of government now includes the facilitation of and regulation of private infrastructure as well as the direct provision of infrastructure' (COAG 2007: 4–5). This report called for a stock-take of the available physical infrastructure, its performance and future demand to develop policy to meet Australia's infrastructure needs, but did so at the same time as governments continued to privatise infrastructure without the guidance of comprehensive research of the longer-term impacts of the process.

Creation of a new public infrastructure development plan is now likely to become more important as the current international financial crisis continues to unfold. The COAG Meeting of October, 2008 recognised this in calling for an urgent interim audit report on the state of Australia's infrastructure, as the

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basis for measures to increase the level of public and private investment in it, as well as calling for national guidelines for management of the so called public/private partnerships (PPPs) that have been used to develop significant infrastructure over the last decade (Chester and Johnson 2006). This process will likely lead, if the current policy stance is continued in relation to encouraging privatisation, to myopic decisions that will privilege the private sector in the short term at the longer term expense of consumers, taxpayers and the economy more generally.

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