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Book Review

PAUL SWEENEY, 2004. *Selling Out? – Privatisation in Ireland*, Dublin: TASC/New Island.

Over the last fourteen years the Irish government has withdrawn entirely from direct public provision in sectors such as banking, food, insurance and telecommunications. The wave of privatisation and rationalisation that has been at the heart of this pattern of withdrawal is set to continue with a host of key decisions to be made about the future ownership and structure of sectors such as airports, aviation, buses, electricity and gas. Given the strategic importance of these sectors in an economy where improving international competitiveness is the cornerstone of much economic policy it is surprising that questions concerning privatisation and public enterprise have received little attention in terms of published critique and analysis. Paul Sweeney's *Selling Out – Privatisation in Ireland?* is therefore a welcome and timely contribution to the debate about this important aspect of public policy.

This is Sweeney's second book on public enterprise and privatisation in Ireland, coming fourteen years after his analysis of the Irish public enterprise sector in the pre-privatisation era. As in his earlier book *Selling Out* "celebrates the contribution of state enterprises [and] their employees" (p. 148). This may not be surprising given his trade union connections[1] but it should be stressed that Sweeney is generally careful to avoid engaging in an ideologically based discourse. On the question of privatisation, the author does not adopt what may be expected as a traditional trade union stance of opposition to privatisation in all forms. Instead his analysis leads him to a number of policy recommendations including forms of privatisation such as joint ventures. Given recent indecisiveness by government in relation to the ownership and structure of public enterprises and relevant markets (e.g. Aer Lingus) the full collection of recommendations should be set as compulsory reading for Ministers and civil servants charged with deciding the future of the public enterprise sector.

The book comprises of two key dimensions: first, the role and performance of public enterprise in Ireland and second the question of privatisation and to a lesser degree other reforms such as regulation and competition. It is extremely readable and the prose is sharp and to the point. The author draws on his intimate knowledge of the state sector, which is based on his previous research and direct involvement with companies as a trade unionist and a company director. Unlike other well-known books on privatisation (e.g. Vickers and Yarrow, 1988) his treatment of public enterprise and privatisation is not set in a theoretical context (political or economic). The book is,

[1] Sweeney is an economic adviser to the Irish Congress of Trade Unions having previously worked as an economist with SIPTU.

therefore, geared for the general readership but it contains a wealth of information that makes it a useful academic reference for students of disciplines such as public administration and public sector economics.

The book opens with an analysis of the contribution of state companies to the Irish economy and society. The author offers an extremely favourable assessment of the role of public enterprises in the post-independence economy. His assessment is consistent with most histories of economic development in Ireland that recognise the positive and necessary role of public enterprise at a time when required investment was beyond the capacity of an undeveloped private sector. The significant achievements of public enterprise described by Sweeney include the creation of employment (which peaked at 90,000 jobs across more than twenty commercial enterprises in 1980), the contribution to regional development and the spawning of a significant number of private sector managers and entrepreneurs including Tony O'Reilly who cut his managerial teeth with the Irish Sugar Company.

Sweeney makes an interesting case for public enterprises as foci of entrepreneurial activity and cites Aer Lingus in support of his argument. The company's history of financially successful diversification into hotels and less successful forays into aviation-related services (TEAM and Futura Airlines) are held up as examples of entrepreneurial responses to the need to compensate for the cyclical nature of the airline business. Sweeney's view on such commercial and entrepreneurial behaviour is of course at odds with many of those who promote privatisation on the grounds that there is no case for state involvement in such activities. However, Sweeney sees nothing *per se* that is wrong with public ownership. He maintains a consistent line of argument in favour of state enterprise subject to the conditions that managers are afforded autonomy to make commercial decisions and that enterprises are compensated for providing un-commercial services. The cogency of his argument serves to highlight much of the dogma that characterises cases against the notion of public ownership.

Sweeney provides a brief update on the performance of the sector – the question that commanded the focus of his first book. He records the continuation of the broad trend of improvement observed throughout the 1980s, when most loss-making public enterprises achieved a turnaround to net profitability. This section is brief concentrating entirely on profitability, which is not necessarily the key indicator of public enterprise performance. In this respect Sweeney is open to criticism of glossing over some of the less successful aspects of public ownership. Although most enterprises now record profits they have not quite reached the frontier of maximum efficiency and enterprises such as RTE and CIE have rightly received criticism in recent years for delivering poor quality service in some respects.

Nonetheless the overall profitability of the sector serves to illustrate that state enterprises do not constitute a drain on the exchequer. This in fact is one of a host of myths about the sector that Sweeney dispels. Not only is the sector (in aggregate) profitable (after interest and all other charges), seven of the twenty-four commercial enterprises under public ownership in 1990 never received state funding (i.e. they were funded by borrowings and surpluses). Most others received very little in terms of investment. He calculates (p. 42) that the total amount of state investment in the sector (since 1927) amounted to less than $1.5 billion (in current prices). With receipts from the sales of enterprises and their subsidiaries amounting to over €9.3 billion and companies such as Bord Gais and the ESB continuing to make dividend payments to the exchequer the aggregate commercial state enterprise sector has historically been a net contributor to the exchequer.

This of course does not mean that governments cannot fund public enterprises. This is the second big myth that Sweeney challenges and is particularly important, as it has formed the basis of arguments in favour of privatising a number of enterprises, most recently Aer Lingus. Sweeney explicitly spells out that EU rules on state aid prohibit investment only where enterprises are unviable. The persistent misrepresentation of EU rules by those in favour of privatisation is used by Sweeney to support his argument that the state enterprise sector is the subject of hostility from a number of quarters including politicians and civil servants. There is undoubtedly truth in this interpretation but recent developments suggest that powerful interests including the Taoiseach, Bertie Ahern, hold serious doubts about privatisation as a panacea for perceived problems with the public enterprise sector. It appears that the fall-out from the privatisation of Eircom has put the brakes on any clearing out of public enterprises and Sweeney's documentation of the Eircom divestiture tells us why.

His analysis of the privatisation of Eircom, commands a significant proportion of the book. This is understandable as the sale of the telecommunications utility offers a rich set of data, which tells a story of government failure on a staggering scale. Moreover, it provides lessons for all future sales, not least the need to retain a significant shareholding in companies of strategic importance.

Sweeney details how, soon after privatisation, the once vertically integrated enterprise was broken up with the de-merger from its growing mobile phone business and exit from other international and multi-media businesses. These changes were completely at odds with company strategy as articulated shortly before and after divestiture. The short-termism that characterised these changes is now all the more evident as the company considers a re-entry to the mobile market. Shortly after the de-merger, the company was de-listed from the stock exchange. This was followed by a re-flotation but only after a consortium of venture capitalists re-engineered the financial structure of the company, extracted massive gains and exited, leaving the company with enormous debt and onerous dividend commitments. Meanwhile, Ireland ranks among the industrialised countries with the lowest broadband coverage as the former public enterprise has reduced capital investment below planned reductions.

Sweeney's analysis reminds us of how the intended stake for sale increased from 20 per cent to 50.1 per cent in the weeks prior to flotation. At the time of flotation, the decision to sell its entire stake received little attention or criticism. However, subsequent moves by government to re-invest in the telecommunications sector highlight the folly of full withdrawal from strategically important industries especially where market failures persist. Indeed the tale of the run-up to flotation in July 1999 was one of a government racing to capitalise on the boom in technology markets, making policy up as they went along and failing to recognise the wider implications of privatising a dominant utility. The Minister for Public Enterprise, Mary O'Rourke, receives much of Sweeney's criticism. Her promotion of privatisation as a means of creating a nation of shareholders echoed the ultimately invalid arguments advanced by Tory politicians in the UK where twenty years of experience demonstrates that privatisation may have widened but has failed to deepen share ownership.

The role of trade unions before and after privatisation commands specific attention from the author and his criticism of the role of the Employee Share Ownership Trust (ESOT) is particularly noteworthy. As a trade unionist Sweeney does not have a principled objection to employee share schemes (financial participation) or ESOTs (collective share schemes that give employees the potential to influence company decision making). However, he argues that the Eircom ESOT has "made a number of errors from a trade-union perspective" (p. 82). He recognises that the ESOT has been tactically superb in doubling its financial participation from 15 to 30 per cent and securing three seats on the board. Moreover, the 14,000 employees and former employees have made substantial financial gains. Sweeney, however, argues that the ESOT has taken a short-term view by seeking to maximise returns to its members but at the expense of other stakeholders (i.e. employees (non-ESOT members), consumers and the government). This pursuit of self-interest was exemplified in March 2003 when the ESOT participated in the financial re-structuring of the company that allowed huge value extraction and left the loss-making company with huge debt and reduced scope for capital investment.

It is telling that as a trade unionist who was actively engaged in negotiating one of the first employee share owning schemes in a state-owned enterprise (Aer Lingus) Sweeney is disenchanted with the performance of the Eircom ESOT. This does not, however, prompt him to reject the large-scale employee ownership and participation. Instead his analysis leads him to call for trade unions to act in the wider public interest rather than focusing exclusively on the interests of its members.

Sweeney's coverage of this issue draws attention to one of the aspects of privatisation that has attracted least attention in the growing literature on the topic i.e. the welfare effects of selling public enterprises. The Irish experience to date provides a useful international case-study of these effects. The clear winners to date have been employees, venture capitalists, financial advisers and the exchequer. Those to lose out have included small shareholders (in the case of Eircom), employees (e.g. Irish Steel), and some consumers. Whether these re-distributive effects are acceptable is a question for government but the evidence suggests that the unhappy experience of small shareholders in the case of Eircom has already influenced privatisation decisions and has served unsavoury lessons for policy makers.

The debate on the performance and role of public enterprises is not going to go away. *Selling Out* by Paul Sweeney is therefore a much needed contribution to the debate in the Irish context. Sweeney has adopted a mainly reasonable and balanced standpoint in relation to public enterprises. While recognising that these companies have often failed taxpayers and citizens he coherently argues that their overall contribution to Irish economy and society has been overwhelmingly positive. His biggest criticism of public enterprise is that compared to private sector counterparts they are constrained by political interference. He provides a number of examples including the halting of the ESB's investment in generating plants in Poland after the company had been selected as preferred bidder in 2002. Some of his policy recommendations are designed to remedy this problem and his proposal in relation to a new holding structure for these enterprises, which removes a shareholding role from government departments, is one that is particularly worthy of consideration in this respect.

Whereas Irish public enterprises have undoubtedly been burdened by inappropriate political interference Sweeney fails to adequately emphasise other features of public ownership that can undermine performance. Nobel Laureate Joseph Stiglitz highlights two such features in a paper written for the Institute of Public Administration in 1991. In his analysis of the comparative features of both forms of ownership he concludes that there are two fundamental differences: (1) public enterprises frequently face low levels of competition and (2) public enterprises are usually protected from the threat of bankruptcy. To my mind, Sweeney's treatment of the question of competition is questionable. He explicitly argues that technological advances rather than increased competition were the principal reason for observed reductions in telecommunications prices in the 1990s. Whereas these effects may not be easily separated, Sweeney's argument is at odds with findings in credible studies that show how competition has benefited consumers in markets such as telecommunications, electricity and aviation (e.g. Daßler *et al.* 2002).

This relates to a second criticism, which concerns the depth of Sweeney's review of the privatisation experience in other countries. Although he does refer to the privatisation/de-regulation experience in countries such as the UK, New Zealand and the USA he tends to be selective about the cases he refers to (for example, Railtrack and the Californian Electricity De-regulation). I believe that his conclusions in relation to the question of competition might be revised in the context of a closer examination of the evidence from the UK where over twenty years of privatisation history allows a thorough assessment of the impact of privatisation and accompanying measures of liberalisation. A recent publication by David Parker of Cranfield University – a leading authority on privatisation provides useful lessons in this respect. Following decades of examining the UK experience he concludes that "ownership changes on their own do not appear to have a significant effect in terms of improving performance especially in terms of welfare gains to consumers… In general the UK evidence is consistent with economic theory in making competition the first best in terms of reliably generating efficiency gains, followed in the absence of competition by effective regulation and lastly privatisation" (2003, p. 21).

It is still early days in relation to Ireland's privatisation programme. Up to now the privatisation debate in Ireland has been characterised by a cosy consensus that promotes privatisation on ideological grounds and turns a blind eye to the costs that must be borne when public enterprises are sold. The Eircom privatisation in particular points to an immense deficit of informed thinking on the part of politicians and their advisors. *Selling Out* delivers an important and welcome critique of policy on public enterprise and privatisation in the case of Ireland and one hopes that Paul Sweeney's analysis prompts greater debate on a question of public policy that will be high on the agenda in the coming years.

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