A good price for the family tin?

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Selling the Family Tin? by Ross Clark

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When to use an SOE?

• A vexed question
  • Often in response to a crisis
  • Or driven by ideology
• Ross has provided a principles-based model, grounded in personal experience in the transport sector
• Application requires good information and diagnosis...
1993 (without perfect foresight)

• Rail losing money, and market share to competition (road freight, airlines, buses)
• Services and network had been shrinking for decades
• Rail needed capital for modernisation, but government was fiscally constrained
• Many governance and organisational models had already been tried
• A consortium, including an experienced international rail operator, believed they can make rail work – and were willing to put $400m at risk
• Looked like a great deal!
2004 (without perfect foresight)

• Rail still losing money, and market share to competition (road freight, airlines, buses)
• Services and network were shrinking
• Rail needed capital for modernisation, but private owner was near bankrupt
• Government had capital, but was risk-averse
  • Still believed above-rail business was profitable
• Structural separation looked attractive
2011 (with perfect hindsight)

- Rail is not a monopoly provider of freight and passenger transport...
  - But rail is a monopoly provider of certain political goods (thanks Ross!)
- Those ‘goods’ require the maintenance of the extent of the network and particular activities on the network
  - 1993 privatisation did not guarantee their on-going provision
  - Nor is rail not profitable enough to cross-subsidise them
- Therefore an on-going subsidy is required...
Clark (2010) model

- **Competition in the market**
  - TranzRail: 1993
  - ‘Toll rail’: 2004

- **Regulated monopoly**
  - Ontrack: 2004
  - KiwiRail: 2011

- **State-owned monopoly**
  - Competition for the market

- **Profit**
  - Subsidy

- **Competition** → **Monopoly**
Applying the model 1

• Was the 1993 privatisation a mistake?
  • What was the counterfactual?
    • Probably continuing closures and decline
    • Had the risks been understood, would a regulated monopoly have worked better?
• Was the 2004 structural separation a mistake?
  • Incorrectly assumed that rail operations were profitable
  • Under-estimated transaction costs
Applying the model 2

• Was the 2008 re-nationalisation a mistake?
  • Best model to deal with the ‘subsidy-dependent monopoly problem’
    • High cost to change models
    • High cost to operate model

• Is the taxpayer getting value for money?
Wrap-up

• Clark’s model looks useful
• Application to other sectors looks promising
• But ultimately relies on good information and a principled diagnosis of the underlying situation