

# Risk & Sustainable Management Group

**Australian Public Policy Program Working Paper: P10#1**

Research supported by an Australian Research Council Federation Fellowship and  
Discovery Project

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## **Bad politics makes bad policy: the case of Queensland's asset sales program**

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*This version:13/03/10*

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This research was supported by an Australian Research Council Federation Fellowship.

### *Abstract*

On 2 June 2009, the Queensland government announced a program of asset sales projected to realise \$15 billion. In this paper, the public case for privatisation put forward by the Queensland government is shown to be wrong and, in important respects, deliberately misleading. It is argued that the presentation of a spurious case for privatisation has contributed to poor policy decisions regarding the choice of assets to be sold, the failure to restructure the rail industry to promote competition, and the adoption of inferior methods for sale.

## **Bad politics makes bad policy: the case of Queensland's asset sales program**

On 2 June 2009, the Queensland government announced a program of asset sales projected to realise \$15 billion. The announcement came as a surprise to most Queenslanders, since the government had just been re-elected on a platform that reiterated the Labor party's long-standing opposition to privatisation. Furthermore, the government had repeatedly rejected speculation that QR was being prepared for privatisation (Hall and Ludlow 2007, McCullough 2008).

The government argued that the sale was necessitated by the adverse effects of the global financial crisis on its long-term fiscal position, and that the sale proceeds would permit increased expenditure on social infrastructure such as schools and hospitals. These claims were amplified in a booklet, entitled 'The Myths vs The Facts: Queensland Asset Sales' distributed to all Queensland households at public expense. This booklet, reproduced online with some additional material (Queensland Treasury 2010), remains the only official statement of the case for the asset sales.

On 24 Nov 2009, a group of more than 20 leading Australian economists issued a statement (Quiggin et al 2009). The statement and accompanying press release are reproduced in the Appendix. The statement pointed out that the claim that the proceeds from the sale of assets could be used to finance investment in schools and hospitals was economically unsound, and that the fiscal arguments presented in support of the asset sales were economically invalid. This statement followed an earlier critique (Walker and Walker 2009) produced for the Queensland Council of Unions, which criticised the fiscal case for the sales.

The government, which had criticised the Walker report in very sharp terms, made no formal response to this statement, other than to say that it 'stood by' its

claims. At the time of writing, the ‘Facts and Myths’ booklet, replete with spurious claims, remains the official position.

Some economists who support the asset sales program, including Sim (2009) have argued that, although the fiscal arguments put forward by the government are invalid, the asset sales will nonetheless prove beneficial. Similar arguments have previously been presented by Gittins (2008).

In this paper, it will be shown that these arguments cannot be sustained. Policy marketed on false premises will be influenced, in its design and implementation, by those premises and will therefore lead to adverse outcomes. Two examples illustrate this point: the decision to privatise the Queensland Rail coal freight business as a vertically-integrated near-monopoly and the government’s rejection of congestion pricing for roads.

The paper is organised as follows. Section 1 describes the fiscal position of the Queensland government. It is shown that, while Queensland’s finances have been affected by the financial crisis, the position is almost certainly better than was expected in February 2009, prior to the 2009 state election. Section 2 deals with the fiscal effects of asset sales, and restates the standard analysis showing that, other things equal, the sale of an income earning asset will have zero effect on net worth. Considering factors that might change this conclusion in particular cases, it is argued that the sale of Queensland Forests may yield net benefits, but that the sale of Queensland Motorways is likely to result in a net loss. Section 3 deals with the public case for privatisation put forward by the Queensland government. This case is shown to be wrong and, in important respects, deliberately misleading. In Section 4, it is argued that the presentation of a spurious case for privatisation has contributed to poor policy decisions regarding the choice of assets to be sold, the failure to restructure QR prior to sale, and the sale mechanism adopted for QR. Finally, some concluding comments are offered.

## **1. The fiscal position of the Queensland government**

Prior to the financial crisis of 2008, the fiscal position of the Queensland state government was generally strong. Largely by virtue of the long-standing policy of fully funding superannuation benefits for public employees, Queensland had substantially positive financial net worth, in contrast with other states. However, rapid population growth, driven largely by interstate migration, entailed a continuing requirement for investment in public infrastructure. On the other hand, while increased population implied increased revenue, most of this additional revenue was required to meet additional requirements for current expenditure, leaving an inadequate surplus to service additional debt.

Nevertheless, until the onset of the global financial crisis, the state appeared to be in a good position to finance necessary investment. The crisis led to a rapid downgrading of expected future revenues while having little effect on projected expenditure requirements.

By February 2009, the estimated decline in revenue over the forward estimates period from 2008-09 to 2011-12, had reached \$12 billion relative to the 2008–09 budget. The state government announced that, in the absence of measures to reduce capital expenditure, it anticipated a downgrading of its debt by Standard & Poors. The government announced that expenditure levels would be maintained, and on February 21, S&P downgraded the bonds of the Queensland Treasury Corporation from AAA to AA+. In March 2009, the government was re-elected.

The economic and financial outlook continued to deteriorate during the early months of 2009, but by the second quarter of the year, tentative evidence of a global economic recovery was becoming apparent, as evidenced by US Fed Reserve Chairman Bernanke's reference, on 15 March 2009, to 'green shoots'. The stimulus packages introduced by the Australian government in October 2008 and February 2009 had softened the impact of the crisis on the domestic

economy. These packages were complemented by the strongly expansionary budget introduced in May 2009.

Nevertheless, on June 2, 2009, the Queensland State Treasurer, Andrew Fraser announced that the shortfall in forward estimates had reached \$15 billion, and that this necessitated a range of measures that breached previous commitments, including the abolition of the state subsidy for motor fuel<sup>1</sup>, and the sale of a range of public assets.

The change in the shortfall since the February statement was relatively modest (\$3 billion over 4 years) and rapidly reversed by subsequent developments. The December 2009 projected cumulative operating deficits of \$11 billion for the period from 2009-10 to 2012-13, and the outlook has improved significantly since then. Given the mildness of the recession, it seems clear that the ultimate shortfall in revenue, relative to the 2008-09 budget forecast, will be much smaller than the \$15 billion predicted by the Queensland government and Treasury.

The politically convenient gloominess of the outlook presented to justify the proposed asset sales provoked severe criticism from Walker and Walker (2009) who argued that the fiscal position was much better than claimed. The government offered no substantive response, but vigorously attacked the qualifications and competence of the authors of the report, suggesting that no serious economist would question the sale. This line of attack was dropped after the release of the 20 economists statement, but still no substantive defence of the government's position was offered.

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<sup>1</sup> Although the fuel subsidy is not the primary focus of this paper, it is useful to consider the impact of this policy change, which turned out to be relatively uncontroversial by comparison with the asset sales. The annual expenditure on the fuel subsidy was about \$550 million in 2008-09. At an interest rate of 6 per cent, this would be sufficient to service a debt of about \$9 billion. From the state government's viewpoint this represents a pure gain in expenditure. By contrast, although the proposed asset sales may yield a large gross return this return is almost entirely offset by the need to repay debt associated with the assets and by the loss of equity income, as will be shown below.

Without independent evidence it is difficult to resolve this dispute. Unfortunately, the willingness of Queensland Treasury to promote obviously spurious arguments, and deceptively presented statistics, in support of privatisation means that the usual presumption that Treasury estimates should be regarded as independent and apolitical cannot be applied in this case.

More importantly, discussion of the government's fiscal position is relevant only to the extent that asset sales can be expected to improve that position. This issue is addressed in the next section.

## **2. The fiscal case for asset sales**

Before examining the case for privatisation put forward by the Queensland government, it is useful to consider the economic debate surrounding the fiscal impact of privatisation. The starting point for this observation is that, other things equal, the sale of an income earning asset, whether by a household, corporation, or government will have no effect on net worth. That is, the market value of the asset will be equal to the risk-adjusted present value of the anticipated flow of future earnings the asset will generate.

More precisely, we may evaluate the fiscal impact of privatisation by comparing the sale price received by an asset with the present value of the expected flow of earnings (dividends, capital gains and, in the cases considered here, tax equivalent payments). The present value is obtained by discounting at a rate equal to the social opportunity cost of capital, when adjusted to take appropriate account of the risk characteristics of the income stream.

If the sale price is greater (less) than the present value of earnings in continued public ownership, then privatisation yields a net fiscal benefit (loss).<sup>2</sup> Other things equal, we would expect that the flow of earnings would be unchanged as

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<sup>2</sup> A number of other factors must be taken into account in assessing the net social impact of an asset sale. For example, if the asset is sold for less than its market value, the associated fiscal loss represents a transfer to buyers. If privatisation of a monopoly asset results in an increase in prices, the loss to consumers must be taken into account. These issues are discussed in Quiggin (1995).



would be the discount rate used to evaluate them, and therefore that the sale price would be equal to the present value of future earnings, so that the fiscal impact of privatisation is zero.

Other things are not always equal, however. Three factors are of particular importance. The first of these tends to imply a net gain when public assets are sold, while the other two imply a net loss.

First, where goods and services are produced and sold in competitive markets, private firms are likely to have lower operating costs and higher productivity than their public sector counterparts. In the case of competitive markets, political oversight of management decisions will not yield improved outcomes, even where those undertaking such oversight are solely concerned with achieving the best possible social outcome. On the other hand, if political control is used to benefit particular interest groups, such as employees, or influential groups of consumers, it will produce outcomes worse than those generated by competitive markets.

Conversely, in the presence of externalities or natural monopoly, requiring extensive regulation, public ownership may yield improved outcomes (King and Pitchford 1998). A privately owned monopolist will be willing to expend substantial resources in regulatory contests to extract the highest possible rent from consumers. By contrast, for a publicly owned firm, the costs associated with higher prices are reflected in political pain for the shareholding ministers.

The third, and most controversial, issue which may generate a difference between the sale price of an asset and its value in continued public ownership relates to the cost of capital. The weighted average cost of capital for a typical corporate asset is substantially higher than the rate of interest on government bonds. The difference is caused by the premium demanded by holders of equity, which is greatly in excess of the amount predicted by the Consumption-Based Capital Asset Pricing Model (CCAPM). This divergence has become known as the equity premium puzzle (Mehra and Prescott 1985).

There has been vigorous debate over whether the equity premium represents an appropriate market adjustment for risk, implying that the true social cost of capital to the public sector is equal to the private sector cost of capital for projects with similar risk characteristics. Unfortunately, few, if any, proponents of this view have addressed the equity premium problem, and many have confused the pure risk premium discussed above with the adjustment to expected cash flows needed to take appropriate account of default risk.

Grant and Quiggin (2003, 2004) argue that the equity premium is due, in large part, to the incompleteness of capital markets, and that the appropriate rate of discount for public sector cash flows is close to the real bond rate. The core of the argument is that the standard efficient markets hypothesis, as applied to CCAPM, requires that financial markets must be complete. In particular, individuals and firms must be able to insure themselves against exogenous systematic risk, such as the increased risk of unemployment or bankruptcy during a recession. In the presence of uninsurable background risk, investors will demand a higher premium for assets whose returns are correlated with that risk, such as corporate equity.

#### *Application to the proposed asset sales*

In the absence of any published business case or scoping study other than the deliberately misleading 'Facts and Myths' booklet and website discussed below, any judgement about the application of the analysis presented above to the proposed asset sales must be highly speculative and must rely, to a significant extent, on anecdotal and impressionistic evidence.

Given that qualification, it seems plausible to conclude that the sale of the timber harvesting rights held by Queensland Forests is likely to produce operating benefits arising from the end of political control. It has long been claimed that forest products are underpriced and that politically influential logging interests receive unduly favorable treatment, while pressure to maintain

employment levels leads to unsustainable harvesting (McDonald 1999). Privatisation may be expected to lead to more commercial pricing.

The effect on the sustainability of harvesting will depend on the extent to which the reduction of pressures for increased output in the short term is offset by the higher discount rate and shorter time horizon associated with equity financing.

Some problems may also arise from regulatory issues associated with the multiple use character of public forests. Recreational, environmental and water supply uses may conflict with the desire to maximise returns from forestry.

The ports (Port of Brisbane and the coal ports) are capital-intensive operations with relatively low variable costs, so the potential for improvements in operating efficiency is limited. Under competition policy, the rate of return for the associated monopoly assets is determined by regulation. This should imply a low level of risk and therefore a relatively small equity risk premium.

The case of Queensland Motorways is the least favorable to privatisation. The Motorway is a highly capital-intensive operation, with little scope for efficiency improvements. More importantly, motorways are assets which form part of a transport network and therefore generate substantial externalities. Hence, the socially optimal rules for pricing and for access to the motorway (such as the number and location of on-ramps and off-ramps) will bear little if any relation to the settings that would maximise profitability.

The risk allocation associated with privatisation violates the fundamental principle that risk should be allocated to the party best able to manage it. In the case of usage-based revenue for an urban road, that party is the owner of the urban transport network as a whole, that is the government. A private owner must demand a substantial risk premium in addition to the standard risk premium. Privatisation in cases of this kind is a recipe for rent-seeking and resource misallocation. A more detailed critique is given by Guest (2010).

Finally, the most complex case is that of the coal operations of Queensland Rail. Rail privatisation has proved problematic around the world. The privatisation of

British Rail was partially unwound in 2005, with the return of the network owner Railtrack to public ownership. Train services remain in private ownership on a competitive franchise basis (for passengers) and freight, where two successors of the British Rail operation share the market. Privatization was notably unsuccessful in New Zealand. The entire system has now returned to public ownership.

On the other hand, public ownership has also proved problematic. Critics have pointed to over-staffing and restrictive work practices as a problem in Queensland Rail and other publicly owned railways (Soorley 2010). Decisions on the introduction, and even more on the withdrawal, of rail services are likely to be determined on the basis of political rather than economic criteria. Among the most controversial have been cuts to the Cattletrain service, which has long been unprofitable as a result of competition from road transport (Douglas and Stephen 2008, Paterson 2009).

A central problem for policymakers arises from the natural monopoly aspects of the rail network. Efficiency typically requires that a single enterprise should own and manage the entire network in a given geographical area. The boundaries of the optimal network are determined by the extent of interconnection, which may in turn reflect historical factors such as gauge differences and state borders.

There are some economies of scope between management of the rail network and of the trains that run on it. Thus, public enterprises have typically been organised as vertically integrated monopolies. However, recent reforms in many jurisdictions have sought, with mixed success, to encourage structural separation between network ownership and train operation. Where this has not taken place, as in Queensland, third-party access regimes have been implemented, again with mixed (and in Queensland's case, very limited) success.

As discussed above, the problems of regulating monopoly are commonly exacerbated by privatisation. As the case of Telstra has shown, these problems

are compounded when a vertically integrated firm is privatised intact. Unsurprisingly, therefore both customers and competitors of QR have expressed opposition to the proposed sale (Marx 2009, McKay 2010)

### **3. The Myths vs the Facts: Which is Which**

The case presented to the Queensland public and other concerned parties for the proposed \$15 billion in asset sales consisted of a small booklet entitled 'The Myths vs The Facts: Queensland Asset Sales'. More recently, the government has developed a web site (Queensland Treasury 2010) in which the booklet is reproduced, along with a brief restatement of its main points. There are also summaries of unreleased scoping studies, which contain no analysis, but give information on the proposed sale procedure.

It is unclear where the government derived its 'myths', since none are attributed to any source, and most appear to be simple straw men, set up to be demolished with talking points supporting the government's position. The most striking example is

**Myth:** These businesses are cheap to run.

**Fact:** Keeping these businesses would cost the Government more than \$10 billion over the next five years. That's more than \$10 billion spent on new coal trains and new wharves for the private sector that can't be spent on roads, schools or hospitals.

The statement is quoted as 'Myth' . The only relevant hit produced by a Google search is the 'Myths and Facts' booklet itself. Nevertheless, properly interpreted, the 'mythical' statement is accurate. These businesses generate sufficient revenue to cover operating costs and interest on their debt, and to generate a return on equity of around 5 per cent. Thus, from the viewpoint of the public as owners, they are, in this sense, cheap to run. Indeed, since they are profitable, the cost of running them is negative,.

By contrast, the response stated as 'Fact' contains so many errors in such a short

piece of text it is hard to know where one error ends and the next begins. First, the statement that keeping the businesses would ‘cost the government more than \$10 billion’ for new coal trains and wharves implies that this amount is lost to the public, whereas in fact it would be an income generating investment in low-risk monopoly or near-monopoly businesses.

Conversely, the claim that this money could be spent on ‘roads, schools or hospitals’ neglects the fact that these assets, while they produce a flow of services generate no net revenue for governments to service the associated debt. The fact that selling assets does not provide an additional ‘pot of money’ to finance new public expenditure, current or capital, has been pointed out repeatedly by economists over several decades.

This statement was a central focus of the critique of the government’s case put forward by more than twenty leading economists of all persuasions. The government offered no defence, but also no retraction.

The other striking feature of the claim is the reference to the provision of capital infrastructure ‘for the private sector’. This reference implies that the infrastructure is, in some sense, a gift to private businesses, when in reality it is priced on a commercial basis. The error is even more striking in view of the suggestion that the money derived from asset sales could be used to provide new roads, which would be provided free of charge to road users, including private businesses.

In relation to this supposed refutation of a myth, the economists’ statement observed

This claim is economically unsound. Forgoing income generating investments, and borrowing an equal amount to fund investments that return no additional revenue, leaves the government with no flow of income to service the associated debt. The necessary income must be raised by increasing taxes or cutting expenditure.

The other notable claim in the booklet was

**MYTH:** The five commercial businesses the Government plans to sell generate a lot of income for the State

**FACT:** The total return from all five businesses in 2008-09 was approximately \$320 million. This is less than 0.9% of the Government's income. For every \$100 of Government income that's less than 90 cents. *When the sale process is completed, it is anticipated the Government will save \$1.8 billion every year in interest payments (italics added).*

The economists' statement observed

This is an invalid, apples-and-oranges comparison. The \$320 million figure consists solely of dividend payouts, excluding retained earnings, tax-equivalent payments<sup>3</sup> and the interest paid by the government business enterprises to service their debts.

The \$1.8 billion represent the interests that would be saved, at a rate of about 6 per cent, if the state realised \$15 billion from the asset sale and avoided \$12 billion in new investment. Most of this interest would be serviced out of the revenues of the GBEs, and can therefore not be compared with dividends derived from earnings after the payment of interest and tax.

In the version now appearing on the Web, the sentence, italicised above, claiming that the government will save \$1.8 billion a year in interest payments has been dropped. In addition, the 'Myth' has been modified to remove reference to the fact that the assets for sale are commercial businesses.

As noted in the economists statement, the calculation is based on the interest savings from an estimated sale price of \$15 billion and avoided investment of \$12 billion, at an interest rate of about 6.5 per cent. This is erroneous because about half of the sale price will be needed to repay debt held by the enterprises and serviced from their cash flows. Similarly, the \$12 billion in new investment may be assumed to generate a sufficient (regulated) return to cover at least the bond rate of interest on the associated increase in net debt. So, the true reduction in

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<sup>3</sup> Subsequent advice, received indirectly from the government, was that the \$320 million included tax-equivalent payments.

interest arises from the fact that the equity component of the sale price may be used to repay debt. Assuming \$7.5 billion in net proceeds and a 6.5 per cent interest rate, the saving is around \$500 million.

The relevant comparator here would be the earnings generated by the enterprises, including dividends, tax equivalent payments, retained earnings and capital gains on holdings of land and other assets. The 'Facts and Myths' booklet indicates that the first two items totalled \$320 million which suggests that, on the conservative assumption that this sum would remain unchanged in nominal terms, the net gain to the government is \$180 million a year, less retained earnings and capital gains.

Unfortunately, it is difficult to obtain an accurate estimate of the likely earnings of these enterprises. The most recent pretax earnings of the Port of Brisbane and QR were \$332 million<sup>4</sup> and \$221 million, for a total of \$553 million. This is more than the interest saving from debt repayment without taking account of the other asset sales. However, these figures include some extraordinary gains from the revaluation of land and other investments.

In the absence of a detailed scoping study, it is impossible to tell whether the government's fiscal position would be improved or worsened by asset sales. It is unclear whether the government has undertaken such a comprehensive study, but declined to release the results, or whether the published extracts, dealing only with the implementation of a predetermined decision to sell, represent the entirety of the government's analysis.

### **The case**

Some supporters of asset sales have argued that the validity or otherwise of the public case for privatisation policies is a matter of little concern (Gittins 2008, Sim 2009). Gittins argues that governments may find it politically undesirable to acknowledge their true motives. In particular, he suggests, Labor governments may favor privatisation as a way of reducing the power of public sector unions,

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<sup>4</sup> This excludes a \$275 million profit on the sale of shares in Brisbane Airport, but includes other



but may prefer to market asset sales on the basis of spurious claims such as those presented to the Queensland public.

The experience of the Queensland asset sales reveals that this apparently sophisticated reasoning is, in fact, dangerously naïve. Spurious justifications for public policy distort the process of evaluation, design and implementation, producing poor policy outcomes.

The need to maintain a spurious public case for privatisation implies the impossibility of any serious process of policy evaluation within the government. Such a policy process must create official or unofficial records which may become public as a result of uncontrolled leaks<sup>5</sup>. Hence, participants in the policy process must act, to a substantial extent, as if the purported case for privatisation is the actual basis for policy. In the case of the Queensland asset sales, the effects of a distorted policy process may be seen in the selection of assets for sale, the presence or absence of industry restructuring prior to sale and the mechanisms chosen for the sale.

For most of the assets selected for sale, it is possible to make a fairly plausible case for private ownership. In the case of Queensland Motorways, however, there is ample evidence that private ownership of toll roads is inefficient and undesirable. In a proper public process, these issues could be addressed and debated. However, since the government has relied the spurious claim that the asset sales represent a method of raising money to fund investment in social infrastructure, the real economic issues have been ignored.

The problem of industry structure is most evident in the case of the QR coal freight business. A concern with economic efficiency would imply that the business should be subject to structural separation before sale. The rail network should be sold as a regulated monopoly, with the freight train business being sold as a competitive basis (even if it is currently the dominant firm). However,

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valuation gains, which have been earned consistently in recent years.

<sup>5</sup> The vast majority of are controlled by the government of the day. By providing information on an unattributable basis to favored journalists, governments can influence their media coverage in a desirable direction. But any secret policy process runs the risk that a disaffected employee or

such a process would be likely to reduce the sale price. Since the government's stated rationale is to raise as much money as possible, this option has been rejected.

The method of privatisation is similarly inappropriate. If the privatisation of QR is to allow for improved operating efficiency, it must involve the introduction of new owners and managers. This would occur most naturally through a trade sale to an existing firm with expertise in rail transport. However, such an option has not been pursued, presumably because the current market offers few appealing options. Instead, the sale is to take the form of a public float, marketed at Queensland households, with the government retaining a shareholding large enough to secure effective control. Thus, for practical purposes, the enterprise will continue to be controlled by the Queensland government and the managers it appoints.

### **Concluding comments**

In a democratic society, decisions involving public assets worth billions of dollars should be made on the basis of a properly informed public debate. Where these decisions involve a reversal of long-standing policies, they should be put to the electorate to obtain a public mandate. Neither of these conditions have been met in the case of the Queensland asset sales.

Democratic processes are desirable in themselves, but even more desirable because they have shown themselves, in the long run, to produce more beneficial outcomes than any alternative. The Queensland asset sales illustrate this point. The determination of the government to ram through a policy directly contradictory to its own election platform, on the basis of flimsy and spurious justifications has produced a poor selection of assets to be sold, anti-competitive decisions on structural reform and a sale process that seems sure to produce poor fiscal returns and poor outcomes for the economic performance of the assets as a whole.

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politician might leak information about its existence.

At this point, the only sensible option is to abandon the sale process altogether and begin a fresh consideration of the government's fiscal strategy. Since it seems highly unlikely that this will be done, the only remedy remaining to the Queensland public is to be found at the ballot box.

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## **Appendix**

### ***Press Release: Queensland Government Case For Asset Sales***

#### ***'Economically Unsound'; Informed Public Debate Needed***

A group of prominent Australian academic and business economists has issued a statement describing the case presented by the Queensland government in support of its proposed asset sales as 'economically unsound' and 'based on spurious claims' The statement concludes that 'The people of Queensland deserve a robust and well-informed public debate over the costs and benefits of privatisation. So far they have not received it.'

The group encompasses a broad range of views on the merits of privatisation—some might favour it in particular cases whilst others would be less likely to. However, all are agreed that such important decisions should be made on the basis of well-informed discussion. Important issues include whether the private or public sector would be the most efficient managers, which would be the best bearers of the business risk and the best ways for the enterprise to meet social as well as financial objectives.

The group includes twelve professors of economics from four leading Queensland universities and nationally prominent academic and business economists including current and former members of the Board of the Reserve Bank of Australia.

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23 November 2009, embargo until midnight 23 November 2009.

## **Statement by academic and business economists on the Queensland government's case for asset sales**

Decisions on the sale or retention of public assets have important implications for competition and public policy, as well as for the fiscal position of governments. These decisions cannot be resolved on the basis of general ideological arguments for or against public ownership, and require informed public debate in each case. The normal lines of economic debate include whether a given business is more efficiently operated in the private or public sector, the appropriate allocation of risk and the extent to which the enterprise is required to pursue social as well as financial objectives.

The signatories of this statement have a range of views on the appropriate balance between the public and private sectors and on the merits of privatisation in particular cases. However, we share the view that these questions should be resolved on the basis of well-informed discussion of the economic and social costs and benefits of privatisation, and not on the basis of spurious claims that asset sales represent a costless source of income to governments.

The arguments put forward by the Queensland government in its booklet 'Facts and Myths on Asset Sales' do nothing to promote a well-informed debate. Two central claims are particularly, and sadly, noteworthy. In relation to five public assets proposed for sale, the "Facts and Myths" booklet states

*Keeping these businesses would cost the Government \$12 billion over the next five years. That's \$12 billion spent on new coal trains and new wharves that can't be spent on roads, schools or hospitals.*

This claim is economically unsound. Forgoing income generating investments, and borrowing an equal amount to fund investments that return no additional revenue, leaves the government with no flow of income to service the associated debt. The necessary income must be raised by increasing taxes or cutting expenditure.

Selling public assets will improve the public sector's fiscal position only if the price realised for the assets exceeds the value of the income stream that the asset would otherwise generate for the public sector. In this respect, the 'Facts and Myths' booklet states

*The total return from all five businesses in 2008-09 was approximately \$320 million. When the sale process is completed, it is anticipated the Government will save \$1.8 billion every year in interest payments.*

This is an invalid, apples-and-oranges comparison. The \$320 million figure consists solely of dividend payouts, excluding retained earnings, tax-equivalent payments and the interest paid by the government business enterprises to service their debts.

The \$1.8 billion represent the interests that would be saved, at a rate of about 6 per cent, if the state realised \$15 billion from the asset sale and avoided \$12 billion in new investment. Most of this interest would be serviced out of the revenues of the GBEs, and can therefore not be compared with dividends derived from earnings after the payment of interest and tax.

The people of Queensland deserve a robust and well-informed public debate over the costs and benefits of privatisation. So far they have not received it.

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