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### **The Great Train Folly**

This week the government accomplished what might be a world first for the twenty-first century: the buy-back of a railway.

In most parts of the world, the ideology of “public ownership of the means of production, distribution and exchange” is long since dead.

As the World Bank has said, “Privatisation is now so widespread that it is hard to find countries not using the approach: “North Korea, Cuba and perhaps Myanmar make up the shrunken universe of the resistant.”

Overseas observers were dumbstruck by the government’s action, and the eye-watering price paid for the Toll New Zealand assets.

Australian commentators recalled Kerry Packer’s remark after selling a broadcasting asset to Alan Bond and then buying it back much more cheaply: “You only get one Alan Bond in your life.”

Extraordinarily, the Treasury, the keeper of the public purse, was excluded from the transaction, and it is inconceivable that the government’s private sector advisers regarded the \$690 million figure as justified.

We need to put the government’s decision, and state ownership of businesses in general, in a broader context.

New Zealand’s number one economic problem is low trend productivity and economic growth. This is behind the poor outlook for increases in wages and other incomes.

Ostensibly, the government’s top economic priority right through its term of office has been to achieve faster growth, in order to raise New Zealand incomes into the top half of the OECD range.

The problem is that most of its policy changes have had the opposite effect, and a recession and serious inflationary and other economic problems are now upon us.

The buy-back of rail will reduce potential economic growth further. This is axiomatic given the government's expectation that the business will run at a loss and have to be subsidised. Loss-making businesses are value-subtracting not value-adding: they reduce GDP.

The clear-cut evidence that, on average and over time, government-owned businesses underperform privately owned businesses, and are typically a drain on economies and taxpayers, lies behind the worldwide privatisation moves in the last 25 years. It is hard to find cases of governments buying businesses back.

This does not mean that all private businesses succeed in the face of competition and all government-owned businesses fail, but it does mean that governments should not gamble against poor odds with taxpayers' money.

The evidence is the same in New Zealand. Few of the 30 privatisations of the past 25 years are now controversial. A Business Roundtable study suggested that further privatisation could boost GDP by around 1% (some \$1.8 billion).

Australia has been one of the world's major privatisers in the same period, under both Liberal and Labor governments. Rail privatisations have included the National Rail Corporation, V/Line Freight in Victoria, FreightCorp in NSW and Westrail in WA.

Many myths surround the privatisation of rail in New Zealand. People forget that for decades the government rail business was loss-making and inefficient: in 1990 \$1.2 billion of debt was written off and a \$360 cash injection had to be made to keep it afloat.

Journalists should ask much harder questions in response to political claims that rail was a disaster under private ownership. Research by Professor Lew Evans of Victoria University has shown that productivity

gains were impressive, the decline in rail freight's market share was arrested, and significant investments were made.

However, freight is a highly competitive business, and although financial returns improved substantially, Tranz Rail did not manage to meet its cost of capital and got into difficulties. The root of the difficulties was competition, not privatisation.

However, there was no need for the government to step in, first by buying back the track operations and now the whole business. Private investors routinely take over and restructure failing firms that have worthwhile assets.

The reality is that rail is a difficult and in many respects outmoded business in New Zealand. The technology and efficiency of road transport has improved substantially relative to road. Even the claimed environmental and energy efficiency benefits of rail are dubious as a general proposition.

The level and pattern of rail services in New Zealand should be determined by market competition. All modes should be expected to stand on their own feet and pay the full costs of the resources they use, including any charges reflecting the costs of carbon emissions, but there is no case for discriminatory subsidies.

New Zealand is now facing the prospect of a return to the Muldoon era of a politicised transport industry with major distortions between road, rail and coastal shipping; political obstacles to the closure of uneconomic rail services; rail ferry strikes at holiday times; red ink in the Crown's accounts from rail losses as far as the eye can see; and a further setback to our chances of closing the income gaps with Australia and other wealthier countries.

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