An exchange on the privatisation of public utilities

17 March 2000

Dear Editors,

I am interested in the way in which public companies and utilities are affected by the tendency of profit to equalise across industries. Public companies are more complex than private companies to study, because often they are subsidised and their outcomes are not exactly quantifiable, in terms of a definite return.

It seems, from studying Marx's *Capital* and from observing what has happened to public companies, that these institutions are subject to the same laws of profit as private companies. If the Government company is less efficient or, to put another way, has greater than average production costs, then these public companies begin to make losses or experience reduced profits. An example would be Telstra (a company that was formerly a public Australian telecommunications company). During the nineties, Telstra seemed to be maintaining less of a profit than would have been the case in the private sector. For example it retained staff which would have been retrenched in the private sector and retained services (quality and quantity) which would not have been maintained in the private sector. This meant that the government's calculation of the profitability of maintaining Telstra (long-term) vs. the return on the sale of the infrastructure tends to be in favour of the sale. This is because the private sector is able to make a greater return from the infrastructure than the government, as it is able cut costs (labour and services), which the government is unwilling to do for political reasons.

Is this explanation correct? I am aware that governments don't make their decisions based on these simple calculations. There are strong business interests and corruption involved. I am using this logic for the purposes of the example.

Does the fact that Telstra is a monopoly provider of telecommunications (I mean before it was privatised) affect the calculation? Telstra could maintain greater than average profits due to its ability to monopoly price, e.g., above the free market position. It would seem that Telstra would be able to maintain its viability longer against the equation of selling the infrastructure. Of course this may mean that consumers and other businesses face higher costs and call for privatisation.

Telstra was a non-profit organisation, which did not have shareholder returns to satisfy. Does this affect the outcome? In terms of the actual equation that the government performs, without taking the community into account, it seems that it would not. It would affect the sections of society receiving the benefits from the profits (or the profits otherwise spent). For example the shareholders vs. the general public receiving increased services.

Regards,

RS

10 March 2000

Dear RS,

The analysis you make seems to me to be on the right track. This question has to be examined on the basis of Marx's analysis of the equalisation of the rate of profit across the capitalist economy.

In Capital, Volume I, Marx shows that the sole source of surplus value is the additional, or surplus, value extracted from the working class. Having disclosed the origin of surplus value—its production—he then examines in Volume III the social mechanism through which the total mass of capital is distributed among its different components and how the rate of profit tends to be equalised across all sections of industry.

In Volume III, Marx demonstrates that each section of capital does not receive profit according to the amount of labour which it directly exploits, but according to its share of the total capital of society.

In other words a capital of say 100, comprising constant capital of 80 and variable capital of 20 and extracting surplus value of 20, will receive the same amount of profit as one comprised of 20 constant capital and 80 variable capital and producing surplus value of 80. Although the second capital has produced a surplus value of 80 it will receive a profit less than that, while the first capital will receive profit greater than the 20 surplus value it has produced.

Marx deals with this question in Chapter IX of Volume III.

“So far as profits are concerned,” he writes, “the various capitalists are just so many stockholders in a stock company in which the shares are uniformly divided per 100, so that profits differ in the case of the individual capitalist only in accordance with the amount of capital invested by each in the aggregate enterprise, i.e., according to his investment in social production as a whole, according to the number of his shares” [*Capital*, vol. III, p. 156).

This means that the price of production of each commodity—the price around which supply and demand will oscillate in the market—will not be the value of the commodity but rather the price which brings that capital a rate of profit equal to the average rate in society as a whole. This average rate is given by the ratio of the total surplus value produced to the total amount of capital used to extract it.

Competition is the mechanism through which this equalisation of profit rates is carried out. If the rate of profit for one industry is higher than the social average, capital will tend to move into that industry, increasing the supply of commodities and thereby reducing the price until the rate of profit falls to the average rate.

Of course, if for any reason capital is unable to move into that industry its profit rates will remain higher than the social average. In short, the capitalists in that industry will be able to appropriate a greater share of the available surplus value. Capital in other sections of industry will have to pay higher prices for these commodities and its profit will be reduced. This is the source of the struggle between individual sections of capital which try to establish monopolies in their area of production and the rest of the capitalist class which tries to break them down. The current battle with Microsoft is a classic expression of this process.

The push for the privatisation of government-owned enterprises and services started in the late 1970s and early 1980s. It was provoked by the falling average rate of profit which emerged in that period.

Capital demanded on the one hand that deductions from the available mass of surplus value in the form of government spending (on government-owned enterprises as well as social welfare) be decreased in order to make available a greater mass of that surplus value for distribution as profit. This took a number of forms—the demand for lower taxes (supply-side economics), demands for cuts in government borrowing to lower interest rates, campaigns against the inefficiency of government-owned enterprises and so on.

There was another motivating factor. Capital demanded that areas of the economy previously monopolised by the government, often for social and political reasons, be opened up to it. So in the past 20 years we have seen the privatisation of water, electricity, telephone services and roads.

In the case of Telstra, the higher prices it was able to charge for telephone services in metropolitan areas when it was a monopoly provided the resources for the subsidisation of services in rural and regional areas. But with the opening up of telecommunications to private capital and increased competition, leading to a reduction in charges, this cross-subsidisation has come under pressure. This has led to political problems for the government.

In announcing its $2 billion half-yearly profit earlier this month, Telstra management gave prominence to its plan to axe another 10,000 jobs in order to try to boost its share value. Management made the point that with the reduction in prices for services it had to cut costs in order to remain competitive.

However, this resulted in a political furore with government MPs in rural seats, where there is tremendous hostility to the cuts in jobs and services which have already taken place, claiming this would mean reduced services for the bush. At present Telstra is still 51 percent government owned. But with the markets demanding full privatisation Telstra management insists that it cannot broaden its activities through mergers and acquisitions unless it is fully privatised.

Prime Minister Howard is in favour of full privatisation and insists that even if the government relinquishes ownership Telstra will still be compelled by government regulations to provide adequate services to rural and regional areas. However, full privatisation will meet with opposition not only from the opposition parties but also from government MPs.

In this situation of stalemate, Howard is being castigated by the leading mouthpieces of finance capital (in the Murdoch press and in the *Australian Financial Review*) for not proceeding with the program of “economic reform”. So far as the “reform agenda” is concerned it might require the return of a Labor government to the Treasury benches. It was a Labor government which carried out the full privatisation of the Commonwealth Bank under Keating, in direct contravention of the party's stated position.

Yours sincerely,
Nick Beams
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