

Public Private Capitalism

Keith Rankin, 8 November 2013

If you cannot beat it, join it. Capitalism is an enduring system of economic organisation. Like democracy, it's far from perfect. But it's probably superior to any alternative. Its strength is its decentralised organic decision-making, dynamism from the roots-up rather than from the canopy-down.

New Zealand's early British settlers soon discovered that large private companies played the capitalist game by their own rules. While competition is good for capitalism, capitalists themselves like to skew the market to their perceived advantage.

So early New Zealand governments created publicly-owned competitors to the large foreign-owned firms that weighed heavily in colonial and dominion New Zealand.

Government Life dates back to 1869; the Public Trust Office to 1872. The Bank of New Zealand was nationalised in 1894 in the first of its three bail-outs. The State Advances Corporation dates back to the Liberal reforms of the 1890s. State Fire Insurance opened its doors on 1905.

These 100% publicly-owned firms regulated the markets they operated in by virtue of their participation in those markets.

While most are in full private ownership today, we still have the Public Trust. And part of State Advances has morphed into the Housing Corporation.

This century has seen a return to public private capitalism. The crisis that occurred in 2001, after Air New Zealand overplayed its hand by buying Ansett, saw the effective nationalisation of Air New Zealand. In the years following, we created Kiwibank and KiwiRail.

KiwiRail competes strongly with the road-based freight operators, keeping them honest, even if KiwiRail itself does not make a huge profit. And it competes with Bluebridge on the Cook Strait ferry service, ensuring by its presence that that market operates effectively and efficiently with respect to all stakeholders.

Kiwibank picks up, in part, the roles vacated by State Advances, the BNZ, and the former Post Office Savings Bank. The whole banking sector has upped its game since the arrival of Kiwibank. Thus Kiwibank does not have to make a large profit in order to be judged a success.

In the 2000s and 2010s, we are in a period when both privatisations and publicisations are taking place.

In 2014, two of the biggest non-tabloid media discussions will be around Genesis Kiwi and Assure (unless the part-sale of Genesis is cancelled this year).

I am happy to agree that New Zealand's electricity generators and retailers do not all have to be publicly-owned. (Where there is natural monopoly, as in the lines' business, providers should be publicly-owned, however. Further, I would like to see Transpower pay dividends directly to its owners; kiwi you and kiwi me. I would then not mind so much if Transpower raised its prices and passed on its monopoly profits.)

It appears that the National-led government wishes to persevere in 2014 with the sale of Genesis, the last of the fully publicly-owned generation company, despite the less than stunning share-floats of Mighty River Power and Meridian. Even NZ Herald editorial writer Kevin Hart (25 October 2013) believes that these partial privatisations (two-stage privatisations in plutocratic realthink) are more about ideology than the stated objective of building a fund to build schools and hospitals.

The ideology appears to be to create fully-privatised oligopoly markets through which the new owners can extract substantial economic rents, much as the new Russian oligarchy did after the 1990s' post-Soviet firesales. It even looks as if this government prioritises ideology over 2014 election success.

Genesis may prove to be the fly in the ointment of oligarchic capitalism in New Zealand.

This government could gain itself substantial additional popular support if it halts the Genesis sale. Such a halt can be the government's means to demonstrate that it is not simply out to enrich an incipient plutocracy. Indeed the upcoming referendum will give the Government a perfect opportunity to prove to us that it does actually govern for the benefit of all, and not just for the benefit of its ideological patrons.

With a fully publicly-owned Genesis, then Genesis can become the Kiwibank of the power industry. All the better that Genesis has substantial interest in gas; it has a broader base in the energy industry than does the bigger Meridian. Genesis, with its special interest in Lake Taupo and the Whanganui River, could even become a flagship of a Crown-Iwi treaty partnership.

Most importantly for my argument, the mere presence of a publicly-owned Genesis amidst the likes of Contact and Meridian can ensure that those companies face substantial constraints to what might otherwise be naked profiteering.

It is into this context, of history repeating just a little – with John Key as the new Massey, Helen Clark as the new Ward (will she make a Ward-like comeback in her dotage?), and David Cunliffe as William Pember Reeves – Kiwi Assure can make a substantial contribution to the New Zealand insurance industry. Indeed it seems like a proposal that John Key could fruitfully run with; unless, that is, he is tired of his present job and would like a new challenge in 2015.

Public ownership per se is not a panacea in the insurance industry. Organisations like EQC and ACC are publicly-owned but are not renowned for their public compassion. They are monopolies, however.

Kiwi Assure is a great idea in the New Zealand tradition. By competing in what is effectively a privately-owned duopoly market, it can make bread-and-butter insurance efficient again. What matters is that Kiwi Assure, like Kiwibank, doesn't try to do too much. The required overhaul of EQC, and a more general rethink of disaster insurance, is a separate matter.

Kiwi capitalism is good capitalism. Kiwi capitalism means getting the public private balance right. It's neither left capitalism nor right capitalism. It's capitalism as our grandparents knew it; capitalism that does not require part of the population to be losers. It's capitalism reinvented for a post-neoliberal era which places emphasis on sustainability and equity as well as profitability.

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