TITLE: **AWH saga taints privatisation**

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Economics textbooks have a pretty depressing story to tell aspiring business owners. It can be summarised as, “Don’t bother. You will never make any money and even if you do, your success will attract new competitors who will push your price and profits down.” But don’t worry, no one pays economists for the accuracy of their forecasts.

In reality, some people are so determined to go into business that they are willing to spend a small fortune to do so. Take Australian Water Holdings for example. Despite his extensive training in economics and his interest in the benefits that supposedly flow to consumers from privatisation and outsourcing, Arthur Sinodinos was willing to chair a company which sought to undercut the price of water maintenance at Sydney Water. What was he thinking?

Of course, he wasn’t alone. AWH’s owners, who may or may not have included the Obeid family, thought they stood to make a lazy $100 million in windfall profit if they could secure the contracts they were after. That is a lot of money, and any economist could tell you there is no way you could make that kind of profit in a competitive, clean tender to provide a simple engineering service. Any advocate of contracting and privatisation could tell you the same thing. Again, what was Senator Sinodinos thinking?

Last week the commission of audit released its report and recommendations which called for wide-scale privatisation and outsourcing along the lines AWH has been waiting for. Significantly for a document that lengthy, the evidence it provided in support of the view that privatisation is good for taxpayers was pretty sparse. While empirical evidence in support of privatisation and outsourcing may be in short supply in the audit commission, there has been an abundance of evidence of a different sort being churned up by the NSW Independent Commission Against Corruption. Thanks to the ICAC we now know that companies such as AWH are willing to spend millions of dollars on staff, lobbyists, political donations and even bottles of Grange in order to win something as seemingly mundane as a water services contract.

But, contrary to the view of the audit commissioners, the public servants at ICAC have been pretty productive of late. Not only are they investigating how and why so much money was changing hands to help AWH win a contract from Sydney Water, they have also been investigating the systematic breaches of NSW laws forbidding property developers from making political donations.

Property developers are well known for their generosity and civic mindedness. Indeed, they became so determined to express support for the democratic process in NSW that they were making other industries feel stingy.

But even after laws were passed to prevent politicians from exploiting the generosity of the developers, ICAC has found evidence that some developers just can't stop giving their money away.

Like engineering services in the water industry, economists wouldn't usually think there was much money to be made in property development. There are lots of builders, lots of architects and lots of project managers. If you didn't know better, you would think that property development, like engineering services, would resemble the kind of competitive industry that economics textbooks rave about. And if you didn't know any better you'd think all that competition would mean there was no money to be made in buying land in a competitive market, getting it rezoned, then contracting out the building to the lowest bidder.

But Australia's rich list is full of property developers because, like winning contracts with Sydney Water, some developers just seem to have a knack for getting the planning approvals that they need.

The commission of audit seems convinced that competition between firms will ensure privatisation will deliver the magic pudding of high asset prices for governments and low product prices for consumers. The willingness of AWH and property developers to invest so much effort in helping governments make the "right" decisions suggests the opposite might be true. Either the commission of audit or the firms spending up big on lobbying for the "right" decisions are completely wrong. Economists usually back the people betting their own money.

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