

Can monopolies compete?

British plans to sell the public electricity utility deserve more thought.

IN the middle of a desert, a single ice-cream seller can charge what he likes for his product. The only natural limit is what the market will bear, presumably determined to a close approximation by the cash that potential customers carry in their pockets. This simple prospect seems now to alarm the British government, which plans to sell the nationalized electricity industry to the world at large once it has fought the necessary legislation through the parliamentary session beginning next October. Stung by criticism that the earlier sale of Britain's once-nationalized telephone monopoly has neither improved services nor reduced costs, the government is rightly anxious to create some kind of competition within the privatized electricity industry. In the process, it seems likely to provide a fiery rehearsal of the pros and cons of turning public into private monopolies.

Part of the peculiar British difficulty about this latest scheme for selling public assets is that the British electricity industry is technically as advanced as any other. Only *Electricité de France* has built a comparably integrated network for long-distance transmission — and not even prime minister Jacques Chirac, eager though he is to unwind the French industrial nationalizations of the early 1980s, has dared float the possibility that that might be sold to private shareholders. The strength of both systems is that the output of the generating stations is tightly welded together by a capacious transmission grid, allowing the minimum daily demand for electricity to be generated by the most economical generating stations and making it possible for more expensive generating plant to be used only when needed.

The system works well. In England and Wales, the nationalized generating stations and the transmission grid are operated by the Central Electricity Generating Board (CEGB), which sells its output to a number of regional authorities which, in turn, sell on to individual customers. The system's monopoly has been shaded in recent years to the extent that private persons and companies can now generate their own electricity, although plans for enabling them to sell surplus electricity to the nationalized system have been of little benefit to either party.

How to sell off this system so that the owners of the several parts provide the cheapest service to their customers? Until the end of last week, the government believed it had a solution: sell the area boards to private owners, let them jointly own the transmission grid and leave the CEGB with the ownership of some, but not necessarily all, of the stations now publicly owned. The government seems to have reckoned without the formidable chairman of the CEGB, Lord Marshall, who protested vigorously at the prospect that the management of the power stations might be separated from that of the transmission grid. By all accounts, government plans have been returned to the melting-pot.

The underlying error is a misunderstanding of what constitutes a commercial supply of electricity. What matters to an electricity consumer, and in British circumstances to the area boards, is that there should be a supply of electrons at an agreed potential (volts) and in sufficient numbers (amperes) from a local conductor. It is literally irrelevant how the potential is achieved or where the electrons come from. With the present structure of the British electricity industry, area boards are (or should be) equally unconcerned about the means by which their connections to the transmission grid are provided with current enough to meet their customers' needs at the prearranged voltage, but they are (or should be) concerned on their customers' behalf with the charges they have to pay.

Under the new arrangements, when the components of the industry will be commercial entities, the chief difficulty must be to ensure that enterprises making bad decisions, either about capital investment in new plant or about the instantaneous

operation of the system, should themselves suffer financially and should not be able to avoid the consequences by passing on the costs to their customers. Giving the area boards joint ownership of the transmission grid would allow mismanagement of the system to be concealed. A much better device would be to give the area boards the right to build their own power stations if they chose to do so, thus providing the operators of the transmission grid with a continuing spur to efficiency. By the same test, the new rules should allow for new private entities to build new power stations and even to link them together with transmission grids. That way, the CEGB and its commercial successors would be kept nicely under commercial pressure.

But none of this can constrain the area boards, unavoidably the residual legatees of the public monopoly and potentially the ice-cream salesmen in the desert, from charging what they like for electricity supply. In the sale of British Telecom, the government sought to restrain the upward pressure on prices by crudely requiring that telephone charges should not be increased faster than a fixed percentage less than the rate of inflation during an initial period of five years, but that is a bad precedent. Where telephones and power stations are already owned privately, charges made to ultimate customers are regulated in detail by public commissions. The British government is commendably anxious to avoid the bureaucracy those arrangements entail, but will have to grasp the nettle in the end. The first need is that there should be means of making sure that the charges to individual customers for electricity supply are fair, as between one customer and another or one class of customers and another; this means a more detailed public examination of tariffs than even the public monopoly has had to ensure. Second, there is a need of absolute yardsticks by which profits can be judged to be acceptable. That is where the British government should be concentrating its attention. □

Misguided *perestroika*

Some Soviet engineers feel neglected, and seek an academy of their own. Are they wise?

ONCE upon a time, in the 1930s and even later, Soviet engineers were widely regarded as the salt of the revolutionary earth, but that is no longer self-evidently true. Last week, at a gathering of scientific societies in the Kremlin, one of the questions asked insistently was that of whether the time has come when Soviet engineers should have an academy of their own, to mirror those which already have responsibility for science (including engineering), medicine and agriculture. One argument in favour of the change is that it might enable Soviet engineers to contribute more effectively to Mr Mikhail Gorbachev's *perestroika*. Another, surprisingly, is that engineers at present lack status in the Soviet Union, and deserve more. Both contentions are seductive, but a new academy is not the answer.

It is not as if the strategem has not been tried elsewhere. The US Academy of Engineering and the British Fellowship of Engineering were created to give engineers a "voice", but it is at best a muffled one, while the professional institutions continue to exercise the more decisive influence on education and training. In the Soviet Union, where too many production ministries have too great and too muddled a say in engineering research and development through their own research institutes, there is a more compelling case for change, but to a system in which this hotch-potch of ministry institutes is better managed and more flexibly linked with such needs of as Soviet industry eventually declares. As for the prestige of engineers, there is no reason to suppose that the Soviet need is any different from that elsewhere. And what engenders prestige among engineers (and other professional people) everywhere is that they should enjoy the self-respect that comes from having worthwhile jobs to do, the resources and other requirements necessary for success — and that they should be decently rewarded for their services. □