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The Possibility of Privatization

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ABSTRACT. This study addresses itself to the issue of privatization as a strategy for reforming public enterprises (PEs), which is currently being implemented or under consideration for implementation in various countries.

It is consisted of three main parts. The first introductory part is a theoretical framework. It outlines the importance, assumptions and methodology of the study. It discusses also the nature of goods and services according to a selected criteria of exclusion and joint consumption which determine whether or not goods or services will be produced and the conditions that they will be provided.

The second part is the body of the study. It discusses reasons for privatizations, alternative policies for its implementation, their pros and cons, and the managerial aspects to be taken into consideration in the process of implementing privatization.

The third part presents the conclusions of the study. It is concluded that privatization must not be considered a panacea for all economic and social ills. Instead, a pragmatic national policy must recognize the limits of privatization policies and understand when they might work better than other forms of reform. Moreover, privatization should not be tried only through the sale of assets because it bears great political, economic as well as social problems which less developed countries (LDCs) cannot afford.

The Theoretical Framework

This study consists of three parts. The first introductory part provides a theoretical framework which outlines the nature of the study and definitions of the main concepts. Part two which is the main body of the study, takes up various dimensions of privatization. It outlines common reasons for privatization, alternative privatization polices and their pros and cons, and the managerial aspects of privatization. Finally, some concluding remarks and recommendations are presented in part three.

The Importance, Assumptions, and Methodology of the Study

This study addresses itself to the issue of privatization as one of reform strategies of public enterprises (PEs) which is currently being considered in many countries. It is not an empirical study, simply because privatization is relatively a new approach and a reversal of an old tradition of nationalization or state planned economy in many less developing countries (LDCs) which started in the 1950s. Privatization is still in its early stages and not enough comparative empirical evidence is available about performance of privatized firms.

This study might be one of the new areas of social science literature though it is seen sometimes only as an economic issue. It is hoped that it will generate more interest among academicians. It discusses the main reasons which led, in the 1955, to state intervention in the economy and to the narrowing of the role of the private sector. Some of the implied assumptions being discussed are: are goods and services private or public in nature? can the so-called public goods and services be provided by private providers and vice versa? is efficiency a result of ownership or of competition? can privatization reverse the economic trend which some LDCs are experiencing? should privatization policies be taken as a package or on selective bases? are there guidelines for implementing privatization?

The *methodology* in this study is mainly theoretical and analytical. It draws on available literature from authors, experts and reports of international organizations such as the World Bank and the International Monetary Fund which are involved in privatization in various capacities. This methodology is appropriate because of the relatively recent movement of privatization and the lack of enough comparative empirical data on the subject.

Nature of Goods and Services

The main objective of economic management is to ensure availability of resources in an efficient and effective way in order to satisfy social needs. However, it is very difficult, if not impossible, to have a consensus on all "needed" goods and services because of the relativity of the concept of needs and the unlimited desires of most human beings to have more of almost everything. However, it is very useful in this study to divide goods and services into main categories according to a selected criteria of exclusion[(*)] and joint consumption[(**)]. These criteria are relevant in this respect because the nature of a commodity determines whether or not it will be produced at all and the conditions that it will be provided. The categories of goods are represented in Figure (1) and a brief definition of each category follows[(1)].

(*) Exclusion means that the potential user of the goods can be excluded from their use unless he meets the conditions set by the potential supplier.

(**) Joint consumption means that goods are used or consumed jointly or simultaneously by many people without being diminished in quality or quantity, such as national defense and broadcast TV among others.

(1) **E. S. Savas**, *Privatizing the Public Sector*: How to Shrink Government (Chatham, NJ: Chatham House Publishers, Inc., 1982), p.33.

1) Private Goods

Goods which are individually consumed, and for which exclusion is completely feasible. They are consumed individually and require the assent of the supplier in the form of paying for them. Food, housing and clothing are examples of such goods.

2) Common- Pool Goods

Goods which are individually consumed, for which exclusion is completely infeasible and which are provided with no charge. Air is an example of such goods.

3) Toll Goods

Goods which are jointly consumed and for which exclusion is feasible. They require that consumers pay those who provide them or otherwise not have access to the goods. Cable TV is an example of such goods.

4) Collective Goods

Those sometimes called pure public goods, are those which are jointly and simultaneously consumed and no one can be excluded from enjoying them regardless of the extent to which he/she chooses to avail himself/herself of the service. Further more, there is no way in which individual users can be charged, or in which non-users can be excluded from payment. National defense, street lightening and radio broad casting are examples of such goods.

However, it should be noted that the four categories which were earlier mentioned are ideal- types in the Weberian sense.(2) They do not necessarily represent reality but an abstraction that highlights certain features. The fact of the matter is that some services can be specified to a much larger degree that others to be in one category than the other; In regard to ways for providing goods and services, it can be assumed that for private goods and services many producers are already in existence or can be encouraged to enter the field. In the area of public goods and services, however, there are fewer producers and it is difficult to attract more. The reasons for that might be a large capital requirement, a risky environment, a limited size of the local market among other possible reasons.(3)

The focus of this study will be on privatizing PEs that are involved in providing goods and services which traditionally have been or could be provided by the private sector and are of a more commercial and not of a pure public goods or services nature.

The Concept of Privatization

Privatization with all popularity is used by different people in different ways. Other terms like denationalization, divestiture, opening the economy are also in use. Among various definitions of the term in the literature, the following are selected:

1) The rolling back of the activities of the state(4).

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(2) **H. H. Gerth** and **C. Wright Mills,** *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1974), pp. 196, 264.

(3) For further insight look into **Jonathan Aylen's** "Privatization in Developing Countries", *The Economic Impact*, **60**, 1987, p. 70.

(4) **Julian le Grand** and **Ray Robinson, eds.,** Privatization and the Welfare State (London: Allen and Unwin, 1984), p.3.

2) The production or provision or delivery of services by the private suppliers[5].

3) The enhancement of private sector roles trough management, leasing, or ownership or current state-owned assets or through greater private sector/public sectors competition[6].

4) The conversion of the public sector to private sector ownership[7].

5) The transfer of at least 50% of the shares in any government-owned industry from public to private hands, and any policies designed to introduce competition in the form of new entrants into the markets served by nationalized industries, and any policies designed to eliminate the loss-making activities of such industries and to replace them with services provided by the private sector. The term also encompasses a set of policies relating to other public sector activities such as the sale of any government owned corporation, or the transfer of the provision of services from the public to the private sectors.[8] Therefore, it is in the opinion of the present researcher that privatization includes all policies, which aim at more dependence of the economy on the market system, and on less involvement of the state, where the performance of management is judged, rewarded or punished.

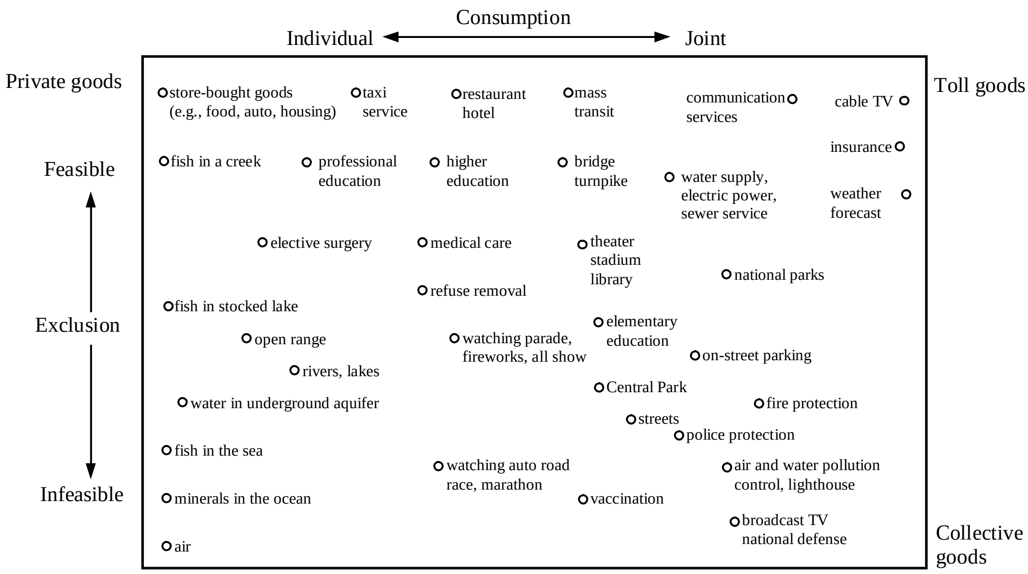

Figure (1)

Diagram showing the exclusion and joint-consumption properties of various goods and services. Pure goods are shown at the four corner points.

Source: E. S. Savas, *Privatizing the Public Sector: How to Shrink Government* (Chatham, NJ: Chatham House Publishers, Inc., 1982).

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(5) **Gabriel Roth,.** *The Private Provision of Public Services in Developing Countries* (New York: Oxford University Press, 1987), p. 2.

(6) **Govindan Nair** and **Mark Frazier**, Debt-Equity Conversion and Privatization, *The Economic Impact*, **60**, 1987. Published by the United States Information Agency in Washington, D.C., p. 4.

(7) **Dennis O. Odifr**, *The Challenge of Privatization* (Yaba, Lagos: Afolabi Obada Enterprises, 1985), p. 3.

(8) Peter J. **Curwen,** *Public Enterprise: A Modern Approach* (Brighton, Sussex: Wheatsheaf Books, 1986), p. 163.

The number of countries which are heading towards privatization is increasing rapidly. An indication of this trend is no more obvious than in the recent and open move of the USSR of Gorbachev towards more open economy as one way of reform.[(9)] The People's Republic of China has been an earlier club member in this regard. It opened its economy for foreign investments and allowed more participation by the private sector and made room for private though limited ownership.[(10)] Similar echoes are found in other East European countries. Two Hungarian scholars who studied Enterprises in Hungary before and after the economic reform which was introduced in 1968 had this to say in this regard:

> "The first and most important conclusion is that in those areas of the economy in which demand changes swiftly, the needs of buyers cannot be satisfied successfully if the economy is not based on autonomous, profit-motivated enterprises. But these can function successfully only if the state does not exempt them from competition with domestic firms or potential, foreign partners".[(11)]

According to estimates published in June 1987 by Salomon Brothers, a leading American Wall Street Investment Bank, at Least 55 state-owned entities have been privatized worldwide since 1980, raising about $48 billion.[(12)]

The Multidimensions of Privatization

Reasons for Privatization

Early proponents of PEs argued that they are economically successful, self-supporting and prominently sensitive to the public interest. PEs are different from regular government agencies in the sense that they are operated profitably, efficiently and in conformity with commonly accepted commercial principles and do not constitute a drain on government resources. However, it appears that those assumptions did not hold in many countries. PEs investment decisions have been either too ambitious, or predicted on invalid assumptions, or excessively reliant on uncontrollable external factors, which made them fragile in the absence of quick adjustments in various forms, such as finding a substitute market for manufactured goods or raw materials, reducing the workforce or close or sell the firm. Instead, PEs were to continue longer for several social and political reasons. In extreme cases, PEs have no viability and were formed without enough reflection, with obscure objective inspite of supportive so called financial and economic feasibility studies. Other contributing factors to the bad performance of PEs are the statutory and administrative controls, political interferences and other less formal modes of interference. Administrative controls and statutes might have made it difficult for PEs to provide managers with appropriate incentives in

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(9) Paul Hofheinz, Gorbachev's Double Burden: Economic Reform and Growth Acceleration, *Journal of International Studies*, Vol.**16**, 1 (Spring 1987), pp.21-53, and **Mohammed Humayu Kabir,** "Glasnost and Perstroika in USSR: Adjustment of the System or Systemic Change ? Banglandesh Institute of International and Strategic Studies Journal, Vol**. 8, 3** (July 1987), pp; 261-91.

(10) Bian Fa, Reform - China's Second Revolution, "*China Reconstructs, North American Edition*", Vol. XXXVI, **10** (October 1987), pp.16-20.

(11) **Rezso** Nyers and Marton Turdus, Enterprises in Hungary Before and After the Economic Reform, *Public and Private Enterprises in a Mixed Economy*, edited by William J. Baumol (New York: St. Martin's Press, 1980), pp.161-97.

(12) **Financial Times Survey**, *Financial Times*, London, September 16, 1987, p.1.

comparison to their counterparts in the private sectors, which opened the door for mismanagement, corruption practices and discharging favors at the expense of the public interest which PEs are to protect. Generally speaking, the present calls for privatization are multiple and overlapping. They are *pragmatic*; *commercial and dielogical*, common to both more developed countries (MDCs) and less developed countries (LDCs). A brief definition of these reasons are in order.

TABLE (1) Growth of the public sector, 1970-1982

Country	Public sector expenditures as % of GDP		Of which, state enterprises		Proportion of GDP of SOEs	Deficit of public sector as % of GDP	
	1970	1982	1970	1982	(1978-80)	1970	1982
Argentina	33	35	11	12	20	1	14
Brazil	28	32	6	11	39	2	17
Chile	41	36	5	10	13	5	2
Colombia	26	30	6	10	9	4	2
Mexico	21	48	10	26	24	2	17
Peru	25	57	4	32	15	1	9
Venezuela	32	66	17	45	45	3	4
Weighted average	28	42	9	19	29	2	9
Malaysia	36	53	4	34	33	12	19
Korea	20	28	7	4	23	4	3
France	38	48	6	7	13	0.5	3
Sweden	52	66	4	6	11	2	10
Great Britain	43	49	10	11	17	3	6
USA	22	21	10	9	4	1	2

Source: Balassa, Bela, Bueno, Geraldo, Kucrynski, PedroPablo, and Simonsen, Maria Hentique, Toward Renewed Ecotomk Growth in Latin Ametica, Institute for International Economics, washington, D.C., 1986, 126.

*State-owned enterprises.

First. From a pragmatic viewpoint, privatization is seen as one way to deal with liquidity problems which government faces, as PEs have become a drain on public resources. For example, the public debt of each of the countries of Nicaragua, Bolivia and Costa Rica in 1984 amounted to or surpassed their total GNP. On a current basis, one third to one half of(13) total export earnings of each of those countries is devoted to debt service. Table 1 shows more examples of the growth of public expenditures in other countries. In such common situations, privatization is seen as a way of raising revenues by selling profitable PEs. Examples by the British government showed such a possibility. From 1980 up to September 1987, 16 major publicly - owned and British companies which account for 40% of the state sector and have been wholly or partially privatized-yielded over 16 billion British pounds.(14) Similar "successful" implementation experiments have occurred in Pakistan and Bangladesh. Moreover many LDCs see privatization as a way to reduce fiscal and credit pressure by getting rid of losing PEs which require continuous budget subsidies and infusion of credit. The growth of the size of external debt for LDCs was mainly due to the expanding role of the state as a consumer, an employer, an investor and a service provider(15).

(13) **Gill-Chin Lim** and **Richard J. Moore**, Privatization in Developing Countries: Idea and Reality, Unpublished paper, no date, p.7.

(14) **Financial Times Survey**, *Financial Times*, London, September 16, 1987, p.1.

(15) **Elliot Bert** and **Mary M. Shirley**, Divestiture in Developing Countries: *World Bank Discussion Papers 11* (Washington, DC: The World Bank, 1987), p.3.

Second. From a commercial point of view, there is a growing realization within both the private and public sectors in many countries that many functions previously thought to be governmental by their very nature can be performed commercially by the private sector more efficiently, more quickly, and more satisfactorily. Examples of these functions are education, health care, water supply and communication services. Furthermore, this would be at a lower cost than government officials would do. This argument, on the ground of efficiency, continues to read that inefficiency is also a result of the state encouraged wasteful use of resources by both suppliers and consumers because both parties pursue their own interest at the expense of the public interest. Moreover, efficiency is not often critical for PEs because they are under less pressure to work efficiently and more secure that they cannot be driven out of business easily. Public organizations are also capable of self-perpetuation and of what students of public administration call displacement of goals to justify their continuity.[16] It is also assumed that the state, and its routine, is a poor entrepreneur which should attempt to sell off profitable enterprises to the private sector which is presumably more efficient and effective and therefore, more profitable socially and economically. The hope is that privatization can reduce the managerial burden on the state by transferring the ownership of PEs to innovative entrepreneurs who will use resources more deficiently as they are motivated by profit making desires.

Third. From ideological and philosophical viewpoints, privatization is driven by a widespread feeling that the government has become too big, too powerful, too costly, too inefficient and overly intrusive. Public choice proponents[17] argue that the development state has failed to achieve economic efficiency and social justice in contrast are considered to be both efficient and conducive to individual liberty.[18] Current examples of ideologically-motivated privatization policies is the case in the British context under Mrs. Thatcher's leadership of the conservative governing party, and under president Reagan's administration in the United States of America where both administrations initiated privatization nationally and encouraged it internationally.[19]

In the LDCs, privatization movement in the opinion of the present researcher is a result of economic, pragmatic and ideological reasons combined. The influence of ideology is very clear from the fact that privatization has been endorsed - if not suggested by international donor agencies to many countries. The World Bank and the United State Agency for International Development (USAID) have supported privatization for a number of years. The World Bank points out to the growing debts of many SOEs in LDCs swallowing public funds that could otherwise go for health or education.[20] The USAID encourages LDCs toward privatization to enhance the

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(16) On the ability of organization members to contrive their own situation and explore multiple and often competing system of a more self-organization see **Linda Smiroich's** "*Implications for. Management Theory in Communication and Organizations: An Interpretive Approach"*, edited by Linda L. Putnam and Michael E. Pacanowsky (Beverly Hills, Ca: Sage Publications, 1983), p. 239.

(17) **Dennis C. Mueller,** *Public Choice* (New York: Cambridge University Press, 1979), pp 12-25. L.L. Wade, "Public Administration, Public Choice, and the Pathos of Reform", *Revies of politios*, 41 (July 1979); pp. 344-374. James M. Buchanan, *The Economics of Politics* (London: The Institute of Economic Affairs, 1978), pp.45-60.

(18) **E. S. Savas**, op. cit., p. 4.

(19) *Ibid*., p.4.

(20) **Jonathan Aylen**, Privatization in Developing Countries, *The Economic Impact,* **60**, p. 68,

efficiency of the public sector through policies such as: Lowering exchange rate, greater export interest rate, less direction of credit, higher energy prices, small consumer subsidies, administrative and budgetary reform, restrained public spending, and a reduction of public sector employment.[(21)] The present researcher views that privatization is based more on pragmatism and expediency rather than on politics. Economic problems allow ideological and external influences and pressures to intervene. Shortage of funds is forcing governments, especially in LDCs to re-examine their priorities and allocate resources increasingly along economic lines and be more sensitive and intolerant to waster. The People's Republic of China, and the cautious Gorbachev's USSR progressive move toward privatization, not to mention the French or the Italian disenchantments with government programs of privatization[(22)] are evidence that ideology is the less influencing factor of privatization. Privatization is seen by many LDCs as a way to deal with liquidity problems and in extreme cases a way to get rid of many PEs which should never have been created in the first place if they were judged by any economic or social objective criteria.[(23)] Industries which were created upon recommendations of artificial feasibility studies are not uncommon. Moreover, economic problems of PEs have been accentuated by excesses in political interferences, mismanagement and waster of resources. These counter productive practices are possible in many LDCs because of weak accountability at bureaucrats and minimal public participation. But many LDCs seem to believe in a number of managerial features which are peculiar to successful companies in MDCs and most often in capitalist countries. These features are:[(24)].

- An existence of a core group of shareholders whose enlightened self-interest are that the company makes profits.
- Key managers have a stake in the success of the company.
- The shareholders are capable of bringing pressure on the management to perform and to hold it accountable.

Alternative Policies of Privatization

Privatization is seen in this study as a reform strategy of PEs which is one way or another closely integrated into government bureaucracy and needs to be separated from it. Therefore, privatization can take many forms (policies) which do not necessarily only changing ownership. The main privatization policies to be discussed are the following:[(25)]

- Selling off of public enterprises, to workers and or to the general public.
- Contracting or purchasing public goods and services from private providers.
- Franchises.
- Grants.

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(21) ***The World Bank Development Report 1986*** (Washington, DC: World Bank 1986); *Blueprint for Development*: *The Strategic Plan of the Agency for International Development* (Washington, DC: USAID, 1983), and "Policy Paper: Private Enterprise Development" (Washington, DC: USAID, March 1985).
(22) On European countries including France, Italy, West Germany, and Portugal, Peter J. Curwen, *op. Cit*., P. 236.
(23) **John R. Nellis,** *op. cit.*, pp. 22-23.
(24) **Dennis O. Odife**, *op. cit.,* p.35.
(25) **E. S. Savas**, *op. cit.*, p. 57.

- Vouchers.
- Voluntary association.
- Closing liquidating firms out of business.
- A combination of two or more policies.

A brief definition of each policy is presented:

Selling of PEs

This is the most conspicuous way of privatization. The selling of PEs or corporations to private investors can take many forms. It can be a wholesale or a partial sale, limited to nationals or open to foreign investors, involves the employee themselves by allocating them specific percentage, opened only to individuals or to private corporates as well as among other possible forms.

Contracting or Purchasing Public Goods and Services from Private Provider

The government in this case would contract private firms or other providers of goods and services (like voluntary associations) for delivery of needed goods and services, and it pays them for those goods and services which can range from health, education; waste collection water, fire protection, communication services, to national defense and public security.

Franchises

An inclusive franchise is an award of monopoly privileges a private firm to supply a particular service, usually with price regulation by a government agency. Franchise can be exclusive or non-exclusive. This kind of arrangement is particularly suitable for providing toll goods such as common utilities.

Grants and vouchers

These arrangements relate mainly to traditional public services rather than to public enterprises.

Grants (to the producer of the service)

Under this arrangement, the state pays private producers grants to produce services in areas where consumption find no interest in investing their money. If low-income housing is considered by the government a priority, then it can subsidize private investors to reduce the price of low income housing for the unprivileged. Eligible consumers can then go to the market, and buy the service which they could not afford otherwise.

Vouchers (or grants to the consumers of the service)

Unlike the previous case, the government here gives grants or subsidies to eligible consumers for that they can buy specific goods which government is not willing/ready to provide directly. The vouchers are coupons with monetary value to be used by grantees to buy goods and services at places of their choices from various private providers, who can redeem the value of vouchers from the government. Such a system is used in the United States in the form of food stamps for people whose income is quite limited.

Closing of liquidating firms out of business

If buyers are not available to buy PEs and if PEs are not viable and continue to make losses for unpredicted length of time, it might be better for government to close off the business.

A combination of two or more policies

Various combined policies can be applied aiming at reducing the state's involvement in providing goods and services.

Evaluating Privatization Policies

It has been noted from the outset, that it is too early to evaluate privatization as a strategy of reforming PEs. That undertaking is properly to be addressed empirically in specific context as experiments with privatization accumulate. That is imperative in view of contradicting claims of superiority of private and state firms, a mixed theoretical support found both in MDCs and the little rigorous research which has been done in this area. While some of the new empirical studies show that forms of privatization are efficient than state-owned projects,(26) others suggest that either there is no difference in costs between private and public providers of goods and services or the higher costs are higher among private providers and with no better quality.(27) The list(28) of unprofitable companies in the private sector and in the public sector is inclusive.

Therefore, the attempt here is to evaluate various privatization policies theoretically on the extent they can achieve efficiency in the sense of lower costs and more profit as being the major reasons for reconsidering the role of PEs and for heading toward privatization. Some of the factors which determine efficiency are the following:

Increasing competition among potential producers

In such situations efficient and effective service is most likely because consumers can move from one place to another to get a good buy. However, it is important to note that it is claimed that full competition is not essential to achieved desired efficiency gains and that the mere threat of competition is sufficient.(29)

The economy of scale involved

It is widely known that other things being equal, larger firms will be better equipped and able to use their full capacity and overcome invisibilities and therefore increase returns.

(26) Conflicting results in MDCs in **E. S. Savas**, *op. cit.*, p.93, and **Paul Starr**, "The Limits of Privatization" in Prospects for Privatization, edited by Steve H. Hanke (New York: Academy of Political Science, 1987), p.124.

(27) For the Situation in **LDCs Roger Leeds**, *Privatization of the National Commercial Bank of jamaica*: *A Case Study; A Research Paper*, September 1987; and **Chin Lim** and **Richard J. Moore,** *op. cit.*, p. 2.

(28) For such a list see **Dennis O. Odife**, *op. cit.*, p. 33.

(29) **Richard Helming** and **Ali M. Mansoor,** "Privatization and Efficiency", *The Economic Impact*, **60**, p. 77.

Direct contact between consumers and producers

This would be expected to result in more responsive and efficient results provided the producer has no monopoly. The more direct link between paying for the service and getting its benefits, the more likely it is efficient.

Better management

Competition which most often forces management to make frequent adjustments and to conduct constant negotiations with consumers can lead to more profitable production. Moreover, close coordination between upper and lower echelons of management, devising of systems of incentives which reward innovation and minimize costs are expected as a result of privatization.

More accountability

Companies would be more accountable to shareholders and more sensitive to the issue of efficiency than the case of those institutions which are government fund. Moreover, it is argued that the sacrifice of reinforced through privatization policies. Equality is viewed to be unfair to be adopted as a strategy in providing public goods and services(30) It is viewed that equal access to goods and services is inequitable because it does not take into consideration the relative need and ability of consumers to pay. The rich can get richer and the poor can get poorer. Moreover, the rich might have more access to public services such road, airports, national TV or broadcasting than the poor. Other means, such as grants or vouchers, of helping the poor in particular, can be used which give them a fair share in the welfare of society without providing free or subsidized services to all which might sacrifice its rules.

The main question which remains is which of the privatization policies is the most efficient? How many of the conditions earlier are found in each of the privatization policies? To these questions we now turn.

The selling off of PEs is directed toward allowing the forces of the market system to play its traditional role in view of the supply and demand laws. The degree of benefits expected from privatization are to be judged according to the extent of freedom which the market enjoys as being the main tool for allocating resources. Efficiency is seen to be a function of: *direct accountability* of private investors to shareholders; better management as a result of disentanglement from strict administrative controls and financial constraints. The more of these possibilities are in hand, the more successful privatization will be.

In the case of *contracting out for goods and services*, competition can be expected among various different adjustment and negotiations can take place between both parties which presumably will be in the interest of the public. Better management practices of firms, and better ways for handling services at minimal costs is also a possibility.

(30) **E. S Savas**, *op. cit.*, p. 85.

Franchises can be competitive only if there are various potential competitors ready to provide the service. But if a private monopoly replaces a public monopoly, it is less convincing that things will necessarily be better. Such an arrangement does not allow for more adjustments and constant negotiation than the case of a public monopoly. Better coordination and better remaining reason for expecting efficiency is the increasing discretions for devising incentive systems for rewarding innovations.

Grants and subsidies to various providers of goods and services can also encourage competition and press private firms for better management, and allow the government more room for negotiations to get the best possible deal it can.

Vouchers, as the case with grants to producers or providers of services, tend to increase competition among various providers of goods and services to attract more consumers. Vouchers presumably have the same expected effects of increasing demand on some goods and services which each provider tries to capture a larger share of them.

In the case of *Voluntary associations,* (VAs), they can employ their own members and could have less costs. If they have to pay other providers, they do not often incur as much expenses as the government and do not face the same pressures for pay increases, and they are more open to innovative forms of voluntary participation. They are based on the self-reliance and self-help approach which helps them economize the use of resources.

Closing or liquidating firms out of business which are not saleable and continue to make losses, might be in the interest of the whole economy in the long run. Efficiency in this case is realized by preventing more drain of resources. This policy is the last resort which government might find itself obliged to consider.

Regarding a combination of two or more policies of those which were discussed above can also make room for private entrepreneur to take over and enjoy advantages and incur disadvantages of competition. That also increase possibilities of better management , and allow adjustments between consumers and producers.

Managerial Aspects of Privatization

Management is too important in this area to be neglected. There are many issues which have to be managed throughout the whole process. Management of change and crises is becoming almost an area specialization [(31)] which is so relevant in privatization. There are many economic, social and political obstacles which have to be expected and dealt with effectively. After all, the implementation of privatization is an administrative issue which needs all expertise that can be found. The relevancy of this issue to the field of public administration is being-though recently-emphasized as manifested by the following remarks:

> "When administrative historians some years hence study the 1980s, they are likely to conclude that `privatization' was the single most influential concept of the decade. Their studies will undoubtedly portray public administration as being profoundly altered by

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(31) See on this topic for example, **Paul Shrivastava** and **Ian I. Mitroff**, "Strategic Management of Corporate Crisis," *Columbia Journal of World Business*, Vol. 22, **2** (Spring, 1987), pp. 5-11.

> several ideas that collectively have become known as privatization. These same historians are also likely to conclude that public administration, as an intellectual field and profession, was in disarray and decline with relatively little capacity to direct its own destiny in the 1980s. All in all, the story will not provide pleasurable reading for public administrationists"[(32)].

Potential problems which need to be managed are economic, financial, social and political. Some of the *economic problems* in most LDCs are: *First*, the limited size of the local market,[(33)] which means that large manufacturing firms most often acquire a monopolistic position which negates the main incentive for competition. Moreover, the limited size of the capital market is due to the public distrust of security markets as a result of the poor auditing in some LDCs. *Second*, most LDCs, pushed by financial problems, want first to sell losing firms of which buyers might be skeptical and not very enthusiastic about. If profitable enterprises are only to be sold, governments will be left with more problems. *Third*, some PEs which are for sale are simply not economically viable or saleable because they were created on political, subjective rather than on economic and objective grounds.

With regard to *social and political problems*, there are enough reasons to assume that employed labor force will not always welcome such changes because of the possibility of trimming the so often over-staffed bureaucracy. Political hazards in this case might be a serious social and political problem for insecure political regimes in many LDCs. This possibility can become a serious one particularly if it is perceived that the beneficiaries of privatization policies are a rich minority, or foreigners if the latter are allowed to buy large percentage shares in PEs.

Even in the absence of real economic or political and social threats to privatization, the success of privatization depends on a number of managerial considerations such as:[(34)]

- Whether private sector managers have greater incentives than their counter parts in the public sector to improve efficiency.

- The degree of competition facing PEs either at the national or international level.

- The extent to which public enterprises are natural monopolies.

- The importance of social and other non-commercial objectives. Therefore, the task of supervising privatization has to be entrusted in a special body which does not have to be necessarily a new one, and have it endowed with political support. This body is to go about privatization in a very organized way as follows.[(35)].

1) Prepare the grounds for reform. This step means that objectives, priorities of privatization have to be clarified, and their rationale explained. Various forms of debate should be utilized. Television debates among various groups are very helpful in this age of television among other means. Such forms minimize rumors about privatization motivations especially in LDCs.

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(32) **Ronald C. Moe**, Exploring the Limits of Privatization, *Public Administration Review*, **Vol.** 47, **6.** (November-December, 1987). P. 453.
(33) **Jonathan Aylen**, *op. cit*., p. 72.
(34) **John B. Beath,** *op. cit*., p. 112.
(35) **Elliot Berg** and **Mary M. Shirley**, *op. cit*., pp. 11-16.

2) Study various enterprises which are to be privatized and distribute findings to provide information and credibility.

3) Prepare a comprehensive strategy of various policies and classify PE which are candidates for various forms of privatization. Social and economic factors have to be weighted and calculated carefully.

4) Take preliminary steps toward privatization of PEs which are first on the list. Some of these steps include legal procedures: to change the nature of entities; to guarantee investors protection; to set standards for company accounting and disclosure and better accounting and auditing to provide equal tax treatment of various investors. Administrative steps like reducing the costs, complexity and time of issuing equities, deciding if some kind of rehabilitation of PEs is necessary, considering appointing new managers to PEs are also important steps. Financial and monetary measures as providing incentives to investments, reconsideration of interest rates have also to be taken.

5) Utilize cost-benefit analysis to evaluate various components of policies. Public, private officials, academic experts, and all of those who can contribute to this effect should be welcomed to make full use of available know-how.

6) Establish contacts with potential interested parties in the privatization program either experts, buyers, consulting firms, international agencies, etc.

Such contacts can be helpful in getting know-how to valuing assets, structuring deals, identifying potential buyers and negotiating deals.

Conclusion

The issue of privatization has been discussed throughout this paper as one of reform strategies of PEs being suggested to or tried by many LDCs, to motivate economic growth after the disenchantment with PEs, which were seen before as a vehicle for economic progress and social justice.

More than 70 countries, and the number is up are probing or heading toward privatization. The joining of the People's Republic of China and recently the USSR is an indication of how this strategy stems from economic necessity rather than from ideology. Efficiency is the catching word for most countries which are considering privatization. It is being held that competitive private provision may well be the right choice within a general framework of ground rules established and enforced by the state.

However, it is a simplistic interpretation to the effect that the mere change of ownership in itself will result automatically in efficient performance. It is not always true that private employees, particularly of large corporations, often see their own interests as quite identical in making profits for the shareholders. It is also as simplistic to assume that public employees never consider their client's interests, as it is to assume that they never consider their own[36]. That is because privatization in some cases may

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(36) **Julian Le Grand** and **Ray Robinson**, *op. cit.*, p.7.

leads to waste and inefficiency as much as nationalization, if users of a service lack technical or other relevant information such as the case in the medical profession, where beneficiaries could be exploited easily.

It appears from this study that the merits of privatization are debatable. Conflicting results and evidences of privatized and nationalized industries in MDCs and LDCs show that efficiency could reasonably result not so from the kind of ownership but from the degree of competition to which a provider of a service is subjected to in the process of providing such goods and services, regardless of the nature of ownership. Privatization is not a panacea for all economic problems in LDCs as much as nationalization has shown not to be so. More explicitly, privatization is not a guarantee for profitability. In some cases, it could open wide the door for corruption practices in the process of leasing contracts, selling firms or awarding franchises.

It is important for LDCs to start any privatization strategy as a means to efficiency and not as an objective in itself, under outside direct or indirect influence even with the best intentions. The choice is not between public or private but what kind of mix is the most suitable with the less direct government or intergovernmental involvement in delivering goods and services. There is no point of focusing on ideology, as was the case with nationalization, at the time where traditional ideologies are coming closer on this issue.

To conclude, a pragmatic national policy must recognize the limits of privatization policies and understand when they might work better, and by the same token where new forms of public sector may ameliorate shortcomings of the market. The choice is not either or, but what a mix of structure of both forms work efficiently, effectively and equitably. This means that privatization policies have to be weighted in terms of how much they match efficiency criteria which somehow specified in this paper, and in the view of the analysis of the context of each of LDCs. Basic conditions which are conducive to the success of privatization policies have to be created, or the whole process would be no more than a passing fad.

Managerial aspects are important and such as undertaking has to be entrusted in a special body which is to be responsible for its implementation and supervision, and to prepare plans to deal with expected social, economic and political problems. The main guidelines for the work of such an entity have been briefly outlined. Learned lessons from the British experience, which are of relevance to LDCs, emphasize the need for real understanding of management in government, and the role which management expertise plays in guiding and instructing politicians in this regard.(37) Finally, empirical. data has to be collected from various countries to provide accumulative knowledge for both researchers and policy makers. But, it should also be mentioned that privatization should not be tried only through the sale of assets. Other means which were discussed might be easier and safer to choose especially in LDCs where social and political risks are greater than those of MDCs.

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(37) **John B. Beath,** Public Enterprises in the UK: Relevant Experiences for the Developing Countries, *Public Enterprises and the Developing World*, edited by **V. V. Ramanadham** (London: Croom Helm, Ltd., 1984), p. 112.

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المستخلص: تتناول هذه الدراسة موضوعا يحظى بأهمية متزايدة في الوقت الحاضر في مختلف دول العالم وخاصة الدول النامية منها، وهو استراتيجية التخاصية أو الانفتاح الاقتصادي كوسيلة رئيسة لإصلاح مؤسسات القطاع العام والتي كانت إلى أمد قريب النمط السائد في إدارة كثير من المرافق الاقتصادية. وتقع الدراسة في ثلاثة أقسام رئيسة.

يتناول القسم الأول التعريف بأهمية وافتراضات ومنهجية الدراسة، والطبيعة المختلفة للسلع والخدمات وفقاً لمعيار إمكانية استثناء من لا يلتزم بالشروط التي يحددها مقدم الخدمة أو السلعة من الحصول عليها من ناحية، وللطبيعة الجماعية لاستهلاك مثل هذه الخدمات والسلع دون التأثير على كميتها ونوعيتها من ناحية أخرى، ومن ثم مناقشة التعاريف المختلفة لمفهوم التخاصية.

أما القسم الثاني وهو متن الدراسة فيتناول الأبعاد المختلفة التي يمكن اتباعها لتطبيق التخاصية وتقييم تلك البدائل وفق أسس الكفاية والفعالية من خلال ذكر مزايا ومحاذير كل منها. والاعتبارات الإدارية الواجب الانتباه إليها عند تطبيق مختلف البدائل حتى يمكن ضمان أكبر قدر من النجاح لها.

ويمثل القسم الثالث الخلاصة والتوصيات لصانعي القرار في هذا المجال والتي تتبلور في ضرورة عدم النظر إلى هذا النهج كحل سحري للمشاكل الاقتصادية والإدارية التي تعاني منها كثير من الدول، أو الانسياق وراء تطبيقها لأسباب أيدولوجية محضة. إذ لابد لنجاح هذه الاستراتيجية من النظر إليها نظرة واقعية كجزء من جملة إصلاحات إدارية شاملة يمكن اتخاذها لأسباب مبررة على أسس الكفاية الإدارية والاقتصادية، وتنتهي الدراسة إلى التحذير من خطورة اختزال مفهوم التخاصية بيع المؤسسات العامة كحل مغر للحصول على الموارد المالية وحل المشاكل الآنية، دون النظر لما يترتب على ذلك من مشاكل سياسية واقتصادية واجتماعية على المدى الطويل وخاصة في الدول النامية التي هي بغنى عن مزيد من المشاكل.