

Privatization

Issues in Privatization

- What is privatization?
- What are the modes of privatization?
- What are the reasons for privatization?
- What are the problems of privatization

Pressure of Privatization

Privatization is the process of returning to the private sector property or functions previously owned or performed by government.

It is a major commitment to push into the private sector hundreds of thousands of Gov. jobs

Objective?

- “Not to move Jobs from the Public Sector to the Private Sector”
- “Objective is to get taxpayers the best deal”

Who is pushing for privatization?

Strategies for Privatization

- Privatization is the management ideology for those fearful, suspicious or skeptical of expanding government
- Ideal tool for those who wish to reduce the size of government

Strategies for Privatization

- If done properly, fulfill the first principle of Reinventing government
 - Government should be catalytic & Steer (set direction) rather than Row (do the work)

Strategies for Privatization

- Sometimes privatization means that government will neither steer nor Row; it will simply get out of an activity all together.
 - People believe that Gov. should have absolutely no role in Birth control; broadcasting; art
 - These are initiatives that should be left for the citizens

2. The returning to the private sector functions previously performed by government.

Performed less expensively & more efficiently

WHY PRIVATIZE?

- Before privatization huge areas of business and employment were under government ownership and control.
- As the years passed it became more and more obvious that this was an inefficient way to run these businesses. Why?

PROFIT?

- 1. Instead of making a profit, many of these industries required subsidies which added to government spending.

BORROWING

- 2. All borrowing (which is something ordinary businesses do all the time) ended up counting as government borrowing,
- so they were pressured to reduce borrowing despite any commercial need and ended up under-investing and unable to compete.

MANAGERS

- 3. Management became lazy and inefficient because they knew any failure would get sorted out by the government in the end; there were too many jobs at stake and too much political prestige at stake for the government to allow the businesses to fail as normally happens with badly managed businesses.

Types of Privatization

Types of privatization?

- Transfer of **ownership** from the Public to Private sector.
- Transfer of **Management** of an Enterprise from the Public to Private sector.
- Withdrawal of the State from an Industry or Sector PARTIALLY or FULLY.

Pressure of Privatization

There are basic forms of government privatization:

1. **The sale of government assets** (such as public airports, companies, and corporation, etc...)
2. **The private financing of public facilities** (such as bridges, toll highways, etc ...)
3. **The private provision of services** (such as education, trash collection, hygiene services)

Main Aim of Privatization

Accomplishments of Privatization

1. The best way to rebuild weakened Public sectors.
2. Stops “loss making public sector” from adding to government debt.
3. Raises more money for government through taxing.
4. Expands an enterprise and an industry.
5. Creates more jobs and generating wealth for the country.

Main aim for Privatization

- To reduce the burden on Government
- To strengthen competition
- To improve Public finances
- To fund infrastructure growth
- Accountability to shareholders
- To reduce unnecessary interference
- More disciplined labor force.

four explicit objectives to those programs:

- i) to achieve higher allocated and productive efficiency;
- ii) to strengthen the role of the private sector in the economy;
- iii) to improve the public sector's financial health; and
- iv) to free resources for allocation in other important areas of government activity (usually related to social policy).

Advantages & disadvantages

Risk in the hand of business

- Privatization places risk in the hands of the owners of the business, rather than the community as a whole.
- Therefore, a profit making tax paying company is not a burden on the community, but an asset to it.

Responsive

- Privatizing government business may make it less subject to ‘red tape’ and more innovative and responsive to consumer complaints.

Unfair competition

- Some claim government run businesses have an unfair advantage over private competitors. (Reduced Taxation)

Who is the judge?

- Theorists would agree that one strong reason for privatization is to reduce the situations in which the government is both a player and an arbitrator

Prices

- Consumers of the goods and services produced by the privatized enterprise would gain from the lower prices and greater availability of the product, as a more cost efficient private operator can pass on these efficiency gains to the market.

More choices?

- Where competition increases product differentiation, consumers will also be able to choose the good or service most suited to their needs.

Allocation of resources by the gov

- The private sector would take over a greater range of commercial activities, but would use less resources than the public sector. This would free resources for other purposes.

More revenues

Improved private sector profitability and its expansion would generate greater tax revenue through growth of the economy rather than through increased tax rates.

Reduced Public Losses

- Taxpayers would gain to the extent that public service losses and inefficiencies would no longer be financed from taxation revenue.

Financing

- In matters of finance, public sector managers are often not free to make important decisions such as the amount of capital they will raise or what they will charge for their services.

Marketing: need gov permission

- In marketing, in many cases public sector enterprises may not move into new products or markets without government permission.

Disadvantages

Services?

- All government firms carry a service which does not make a profit but provides a service. Some of the services would be lost when privatization occurs.

More expensive?

- Sale of Transport (State bus authority divided into private groups in regional basis) may mean outlying areas receive little or no service,
- or Telecom being privately owned could mean timed local calls.

Loss of Jobs?

- Privatization may cause loss of jobs if the new owners feel the numbers of workers are inefficient.

Role of the citizens?

Transfer of a public asset to private owners means the community might have less say about the direction of the company.

Monopoly??? From Public to private?

- Most people are concerned at the possibility of a private monopoly establishing
- Railways