An overview of privatization economics essay

Economics

Short paper on privatizationSSK 1213-11While it is now impossible to visualize our world without privatization, it is still a very contemporary phenomenon by historical standards. In the late 1970s, Margaret Thatcher government of Great Britain introduced for the first time the term privatization, which means the sale of state-owned enterprises to the private sector. Since then, many countries have started their full or partial process of privatizing state owned enterprise which had led to a change in the economic setting around the world. The reasons why government increasingly chose to sell state owned enterprises (SOE) to private owners include the raising of new revenues for the governments, the encouragement of foreign investments, the introduction of SOE to market discipline, competition and the promotion of increased efficiency. Paul Starr (1987) in his article " The limits of privatization" define some terms related to privatization and also make a distinction between privatization and liberalization. Paul Starr (1987) also asserts with the Great Britain example that privatization can be done without liberalization and that is also possible to liberalize without having to privatize. The author then talks about the difference between total and partial privatization. He also argues that partial privatization can lead to better outcomes. Then, Starr (1987) asserts that there is a strong and beneficial relationship between privatization and government spending and its influence on the economic growth. The author also discusses the low costs of privatized firms and claim that the picture is more complicated and nuanced. After improved costs efficiency, budget saving and increased economic growth, the author claims that privatization provides consumers with more choices. The author next discusses examples where nationalization can be better than privatization in a market. While

Starr (1987) is wrong about nationalization, he is similarly wrong about the statement that he made " choice is unquestionably the single strongest point in the case for privatization" (Starr, 1987). In contrast to Starr (1987) statement, privatization can have several benefits other than large choices for consumers. Starr (1987) forgot to mention that privatization can be fiscally beneficial for government; it can also lower prices and increase quality of products for consumers. First, Starr (1987) is his article while discussing the limitations of privatization completely overlooked to address the issue about the fiscal benefits of privatization. Fiscal benefits of privatization cannot be neglect and should be discussed properly. In his journal article, Starr (1987) discusses the fiscal benefits of privatization briefly and states that governments do not profit fiscally from the sale of states owned firms. Starr (1987) neglected the point that privatization of state-owned firms could be considered as a fiscal blessing in two different ways. Firstly, because the government is selling state-owned firms, most of the money raised from privatizing firms will stream directly to the government and not to the privatized firms. Governments then raise huge sums of money during their privatization programs without even raising taxes. For instance, between 1990 and 2003, 120 developing countries carried out nearly 8, 000 privatization transactions, raising US$410 billion in privatization proceeds only (Kikeri, 2006). The privatization proceeds will then benefit a lot the government’s budget. As Pamacheche and Koma (2007) claimed " These financial resources have enabled the governments to sustain macroeconomic stability and repay huge portions of government debts." Secondly, privatization of state owned firms decreases the intervention of government in the support and subsidizing of these firms as they have been sold to private investors. On one hand, this decrease in government intervention will consequently lead to a decrease in government expenses since the government is no more responsible for these firms. On the other hand, these former states owned firms now under private control will also contribute to the government high revenue by paying taxes on the produced products. These taxation gains can also help governments to sustain a good economic stability and repay a part of its public depts. (Pamacheche, 2007). In contrast with Starr (1987) journal article, the proceeds and taxes received can indeed be beneficial for the privatizing governments. Starr (1987) in his journal article argued that the only real benefit from privatization was the wide range of choices the consumers have after privatization. But in his journal article, Starr (1987) did not discuss the effect of privatization on the products quality improvement and decrease in prices. First, competition is known for encouraging enterprises to improve the quality of goods and services their offering in order to attract more consumers and increase their sells. When a firm is privatized, it is introduced to competition with other private firms and starts its quest for a higher share in the market. Therefore, one tactic that can lead newly privatized firms achieve their goal of higher share in the market, is to push their prices down in order to overthrow the competitive firms. Starr (1987) did not mention in his journal article the decrease in the prices of the newly privatized firms products. As claimed by Pamacheche (2007), the several studies done on privatization revealed that in nearly 80% of the cases studied, consumers profited from the decrease in prices of the products of newly privatized firms. Another benefits neglected by the Starr (1987) in his journal article is the quality of products of newly privatized firms. When newly privatized firms are introduced to the market competition, in addition to lowering their product prices, they also do increase the quality of their products. Nalingigwa (n. d.) in his paper argues that the majority of privatized firms tend to improve the quality of their goods and products after the privatization of state owned firms. For instance, some of the goods and services of the Tanzanian privatized firms such as The Mebya Cement Company have been granted quality certificates Nalingigwa (n. d.). In contrast with Starr (1987) journal article, where he states that the wide range of choices provided to consumers is the only benefit from privatization, reduced prices and improved quality of goods can also be considered as benefits. Privatization is viewed by Paul Starr (1987) in his article " The limits of privatization" as negative to an economy as it represents obstacles to both growth and efficiency. Starr (1987) discuss the wider range of choices provided by privatized firms as the one and only true benefit coming from the privatization of state-owned firms. But Starr (1978) in his journal article mainly marginalized the evidence that privatization can also have some benefits for the consumers such as the increase in quality and decrease in prices. Privatization also helps government raise budget in order to cover their depts. Hence, privatization can be considered to have both limits and benefits as discussed by Paul Starr in his article, and as discussed in this paper.