

Is privatization good or bad economics essay



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What is privatization? Why is it here? What is its purpose? These are some of the questions that small business, corporation and the government ask.

There are a lot of controversies, both positive and negative that this issue contains. Many of these issues have been resolved others continue to be unsolved. Everyone has a different opinion and point of view regarding this subject. According to Massimo D'Antoni " In recent years, there has been a widespread consensus in public opinion and among politicians about the benefits of a privatization program involving also goods and services traditionally provided by public firms"

The definition of privatization goes as follows: " the incidence or process of transferring ownership of a business, enterprise, agency or public service from the public sector (government) to the private sector (business)" (www. en. wikipedia. org). In other words, it means the transfer of any government function to the private sector.

Like many issues, privatization has two sides. The number one question that continues to linger is, " Is privatization good or bad?" The individuals whom are for privatization state that once a company is privatize, it will be conducted with more regard to its users. This includes citizens, individuals, consumers due to the fact that it is in the market, and will fail if it is not competitive, and also the incentive for privatizing is to save money and to use that money for other good use (www. en. wikipedia. org). Those whom are against it, argue that because they rightly see that in the free market foreigners will compete for ownership of privatized activities and also they state that privatization has been accompanied by corruption scandals, environmental violations and a torrent of customer complaints.

Privatization in depth

Privatization is also known as denationalization and disinvestment. All three terms define it as a situation where the government decides to transfer control of a government and thus public owned, resource to the private business sector, either partially or totally. There are times at which the government continues to exert a certain amount of control over the industry or service. The history of privatization dates back from Ancient Greece, when governments contracted out almost everything to the private sector in which private individuals and companies performed the majority of services including tax collection, army supplies, religious sacrifices and construction(www. en. wikipedia. org).

Privatization contains three methods. They are known as share issue privatization (SIP), asset sale privatization and voucher privatization. SIP is basically selling shares on the stock market and known to be the most common type of privatization. Share issues can broaden and deepen domestic capital markets, boosting liquidity and potentially economic growth, but if the capital markets are insufficiently developed it may be difficult to find enough buyers and transaction costs may be higher. For this particular reason, many governments elect for listings in the most developed and liquid markets. Asset sale privatization is selling an entire organization or part of it to a strategic investor, usually by auction(www. wordiq. com). Second is Asset sales occur more commonly in developing countries as a result of higher political and currency risk deterring foreign investors. Lastly voucher privatization is known as distributing shares of ownership to all citizens, usually for free or at a very low price. Voucher privatization has

mainly occurred in the transition economies such as the Czech Republic and Slovakia.

Controversies with privatization

There are a lot of arguments that cover this issue and there are a lot of pros and cons regarding it. In the US, people point to problems encountered when certain industries have been privatized. When utility companies were privatized, problems began to occur, and higher prices have been noted.

There's consideration of privatizing various industries: education, public transportation, social security, and a slew of others. Some people, especially on the left side of the political spectrum, feel that other industries in the private sector should be nationalized. Creating a national health plan has been proposed for several decades. In some countries, medical care is nationalized, and has both problems and benefits. In a nationalized health care plan, no one does without basic health care, access to immunizations, or emergency room services when needed. Funding for such a plan is largely through increased taxes, but people don't pay additional money to health insurance companies. People from the nationalized health plans say that one of the biggest problems is that people may have to wait for several months to several years for elective surgeries. Yet, privatized health plans, especially large ones, may have so many members that the same wait time exists; thus this criticism may not be applicable.

Privatization continues to be a matter of much debate, especially in the US where, choice, and free market economies are valued. Some politicians tend to favor many of the current government services or industries, while other

politicians support nationalizing several of the industries currently runs in the private sector.

Pros about privatization

Privatization policies were implemented throughout the world, as both left and right leaning governments alike undertook a policy of privatization governments engaged in privatization in an effort to keep down the size of government and generate revenues (www. wordiq. com). Some of the pros of privatizations are as follows, “ Proponents of privatization believe that private market factors can more efficiently deliver many goods or service than governments due to free market competition” In general, it is argued that over time this will lead to lower prices, improved quality, more choices, less corruption, less red tape, and quicker delivery.

One of the reason people want to privatize is Corruption. A monopolized function is prone to corruption; decisions are made primarily for political reasons, personal gain of the decision-maker, rather than economic ones. Corruption during the privatization process – however – can result in significant under pricing of the asset. This allows for more immediate and efficient corrupt transfer of value – not just from ongoing cash flow, but from the entire lifetime of the asset stream. Often such transfers are difficult to reverse.

Another reason people want privatization is accountability. Managers of privately owned companies are accountable to their owners/shareholders and to the consumer and can only exist and thrive where needs are met. Managers of publicly owned companies are required to be more accountable

to the broader community and to political stakeholder. This can reduce their ability to directly and specifically serve the needs of their customers, and can bias investment decisions away from otherwise profitable areas.

Profit is the third pro. Corporations exist to generate profits for their shareholders. “ Private companies make a profit by enticing consumers to buy their products in preference to their competitors’ (or by increasing primary demand for their products, or by reducing costs)” (www. wordiq. com). Private corporations typically profit more if they serve the needs of their clients well. Corporations of different sizes may target different market niches in order to focus on marginal groups and satisfy their demand. A company with good corporate governance will therefore be incentivized to meet the needs of its customers efficiently.

Lastly, government run industries cost more because they have larger bureaucracies. They leave people with little choice in the market place. Governments should not be in the business of controlling industries or services since this gives them too much control over the people.

Cons about privatization

There are also many of people that are against privatization There reasons for this include, disputing the claims concerning the alleged lack of incentive for governments to ensure that the enterprises they own are well run, on the basis of the idea that governments are proxy owners answerable to the people. A government which runs nationalized enterprises poorly will most likely lose public support and votes, while a government which runs those enterprises well will gain public support and votes (www. groupsrus. com).

Therefore, democratic governments do have an incentive to maximize efficiency in nationalized companies, due to the pressure of future elections.

Secondly, opponents of certain privatizations believe certain parts of the social terrain should remain closed to market forces in order to protect them from the unpredictability and ruthlessness of the market such as private prisons, basic health care, and basic education. Another view sees some of the utilities by which government provides benefit to society at large as indirect and difficult to measure or unable to produce a profit, such as defense. Still another is that natural monopolies are by definition not subject to competition and better administrated by the state

“ Some would also point out that privatizing certain functions of government might hamper coordination, and charge firms with specialized and limited capabilities to perform functions which they are not suited for. In rebuilding a war torn nation’s infrastructure, for example, a private firm would, in order to provide security, either have to hire security, which would be both necessarily limited and complicate their functions, or coordinate with government, which, due to a lack of command structure shared between firm and government, might be difficult”(www. groupsrus. com). A government agency, on the other hand, would have the entire military of a nation to draw upon for security, whose chain of command is clearly defined.

Private companies often face a conflict between profitability and service levels, and could over-react to short-term events. A state-owned company might have a longer-term view, and thus be less likely to cut back on maintenance or staff costs, training etc, to stem short term losses. Many

private companies have downsized while making record profits (www.groupsrus.com).

Another reason may include that privatized industry is most concerned with profit, so while initial benefits to the consumer may occur, the industry may not be induced to keep prices low unless government controls are exerted. The competition fostered in privatized industries may result in dirty or unsavory business practices, Privatization may limit access to certain industries for people who cannot afford them and the public has little control over a private industry. The decisions in that industry may adversely affect those in the public sector. Couple of people from the people that goes against it offer some alternativ to privatization as (Wikipedia.com) have noted. And some of them are 1)Municipalization: basically it's to Transfer control of a nationalized business to municipal government. A second one is Sub-contracting out-source functions to private enterprises. A notable example of this is in the United Kingdom, where many municipalities have contracted out their garbage collection or administration of parking fines by tender to private companies. And partial ownership which says that An enterprise may be privatized, but a number of shares in the company being retained by the state

In addition, the British government is debating the possibility of involving the private sector more in the workings of the National Health Service, principally by referring patients to private surgeries to ease the load on existing NHS human resources, and covering the cost of this.

Conclusion

In conclusion, privatization is something to consider but only with a skeptic's eye and an understanding that no matter what you sell and how you sell it to your community, any privatization effort is going to bring up a lot of problems and also can be controversial. So, if you are really considering privatization, whether it be for your transportation program or for instruction, or school, or even you own business, you should better plan ahead and involve the community, and also the government in the decision or you could be facing a political and public nightmare.