

The role of privatization in improvement of productivity in public sector essay



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The role of the private sector is understood both in broader reform context and partly on how to contain costs and increase efficiency without compromising standards in order to achieve financially sustainable, high quality services in all the sectors of development. The debate on the role of the private sector and privatization and its balance with public sector can only move forward when ideologies and values can be oriented towards priorities and trade-offs between objectives rather than on the instruments to achieve them(Regional Committee for Europe 2003, p.

)The roles privatization plays in improvement of productivity in Public Sector can not be overemphasized. This is more so with the advent of public policy reform programs which has been one of the most important features in the global world during the past few years (Shamsul, 1996). The governments of vary many world economies have in the past few years put in place in various measures of privatization as a form of improvement of productivity in Public Sectors. The implication here is that privatization is a practice which is widely accepted as a method of achieving economic growth in the public sector.

The rise of economic approaches in major world economies which centered on the state was a very strong indicator of the failures of the market mechanisms as well as the increasing demands for the rights of the citizens. Such rights include the rights to have the most basics of necessities such as good living standards, good quality affordable education, and adequate health care among others. Other such necessary services which constitute the rights of the citizens include social equities. It was established that in developing nations the public sector played a very significant role towards

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the acceleration of socioeconomic development of these developing nations (World Bank, 1994). This practice is however beginning to diminish because of various reasons such as the ever increasing dissatisfaction with the public sector among the citizens due to the unnecessary rigidities which characterize the private sector (World Bank, 1994).

At the same time there has been an increased loss of public confidence in institutions of government especially in providing public goods and services. A combination of these factor as well as others have been the driving forces towards the issue of privatization. Forms of privatization Privatization can usually take several forms. These include divestiture which has equally been described as the transfer of ownership of public property in the hands of then private sector.

The other form of privatization is sale of shares through the stock market as well as transferring management of public property to the private sector without necessarily changing ownership of the same (World Bank, 1994). Other methods include the introduction of contracts such as production contracts while still maintaining other contracts like procurements. Other methods of achieving the same could entail sharing profits with the shareholders of the company, liquidation, as well as the reduction of too much bureaucracy in the management of the public corporations. Rationale behind privatizationIn many governments, privatizations have been carried out for many reasons.

One major reason that has been given for the support of the role privatization plays in improvement of productivity in Public Sector has been

the fact that it is a way of increasing the efficiency of the economy, streamlines the public sector as well as acting as a way of scaling down the borrowing of the government. Other reasons for the support of privatization include the fact that it enables the widening of the ownership of shares besides acting as a vehicle for generating revenue for the government (World Bank, 1994). Other roles privatization plays in improvement of productivity in Public Sector include promoting competition among the industry players, reducing government deficits, as well as increasing the choices of the consumers. The implication here is that with all these reasons, privatization actually aims at improving the quality of services that are offered to the citizens.

As can be noted above, the above reasons for the need of privatization can be classified into four broad categories (World Bank, 1994). Such classifications would be in terms of efficiency improvement, in which case state governments have been discovered to be marred by a lot of inefficiencies hence the need for privatization. The second category is that of ownership of property in which case the argument advanced is that the way in which public enterprises are owned is in itself a demerit to the management of the same institutions given the fact that they have no stake in the public enterprises (World Bank, 1994). The result of this is that the managers usually mismanage these institutions.

The other category is that of distortion where the argument for the support of the role privatization plays in improvement of productivity in Public Sector being the fact that the intervention of the government creates many distortions in the allocation of resources. Finally the last category is the fiscal

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principle which maintains that governments are the major causes of deficits in the budgets. Role of private sector and privatization in health systems This is looked at in the context of the reform the private sector has brought to the health care systems. The financing of health and social care by the private sector is a means of decreasing the expenditure by shifting costs from the public purse to the individual consumer. This has been done through the introduction of measures such as increasing private insurance, out of pocket payments and cost sharing, reducing the package of publicly-provided services which all intends to moderate demand and provides resources for health care that governments do not have to rise through taxation and insurance. (Regional Committee for Europe 2003 pp.

1- 7). In western European countries with the social health insurance systems, the private sector has traditionally played a central role in the delivery of health services which is largely unquestioned. In some European countries reforms in national Health systems have been spurred by the failures of the government to leave the control of the publicly owned and operated entities most health systems rely on a mix of public and private funding. The main source of private funding is private health insurance and out-of-pocket payments (Regional Committee for Europe 2003 p 8) Impact of privatization on economic growth A combination of different factors like investment, education, technological innovation along with fundamental structural change is the path to long term economic growth.

The process of privatization is an effective way to bring about fundamental structural change through formalizing and establishing of property rights, which directly creates strong individual incentives. Along with creating <https://assignbuster.com/the-role-of-privatization-in-improvement-of-productivity-in-public-sector-essay/>

strong incentives that induce productivity, privatization also improves efficiency, provides fiscal relief, encourages wider ownership, and increases the availability of the private sector (Filipovic 2008 pp. 1-5). So many theoretical economic benefits are connected to the process of privatization. One of the benefits is that it reduces the size of the existing government, based on the idea that many governments have become too large and overextended; consisting of unnecessary layers of bureaucracy and this requires restructuring in many countries in order to improve efficiency, this can be achieved through privatization.

This is the reason as to why countries pursue privatization. (Filipovic 2008 pp 4-6) The private sector responds to incentives in the market as opposed to public sector which has non-economic goals. It directly shifts the focus from political goals to economic goals which lead to development of market economy, hence by privatizing the role of the government in the economy is reduced, and thus have less chance to negatively impact the economy (Filipovic 2008 pp 4-6) Privatization also helps countries to pay portions of their existing debt, and therefore reducing interest rates and raising level of investment. It gives ownership to a larger percentage of the population since individuals become more motivated and driven to work on and invest in their property since they are directly compensated for their efforts. Privatization causes an increase in investment, state ownership leads to crowding-out of investment from the private sector and in order to retain a monopoly in a particular industry, the state enterprises tend to stop the private sector from getting to credit (Cook and Uchida, 2003). Privatization leads to increase in foreign direct investment which potentially plays a significant factor in quest

for growth which potentially has multiple positive effects on the growth of underdeveloped countries (Filipovic 2008 p.

6). Another aspect of privatization, which plays an essential role in efficiency improvement, is embedded in the Coase Theorem which proposes that the private sector is effective in solving the problem of externalities through costless bargaining, driven by individual incentives. This is whereby individual parties directly or indirectly take part in cost-benefit analysis, which eventually results in the most efficient solution. Therefore the solution that results from bargaining of private parties leads to a Pareto optimal solution (Filipovic 2008 p.).

Privatization and public development Privatization has bridged the gap on the failures of the government in the market and non-market sectors. The private sector has laid down industrial base for most countries and diversified the industrial structure via linkages with the rest of the economy; this has indeed created employment opportunities for most of the people. It has also enabled them to undertake the production of all commodities, including infrastructural services. Private industrialists also venture into areas earlier reserved for public sector such as power, aviation, telecommunications, roads and railways. The governments should sell enough to improve the quality of management, thus ensuring better Market valuation (Kaur 2003, p 276-284). One of the contributions to the worldwide process of privatization is the fall of the communist regime in Eastern Europe and the former USSR.

In recent times, all communist states have begun to implement in the hope of stimulating economic growth. This has seen a shift of over \$ 468 billion over the last 10 years of assets from the public to Private Sector.

Understanding of the concept of property of rights is the idea behind privatization. This is such that in order to develop an expanded, specialized market system, a society must have an efficient way of dealing with numerous transactions that takes place in a specialized economy. This and allocation of resources depends on low transactions costs, which are dictated by prices in market economies (Filipovic 2008, p. 5).

The spilling over of improved technology is also one of the benefiting factors. Underdeveloped countries have an advantage of implementing the new innovations, and so there's possibility that underdeveloped countries have less invested in old technology, and are now investing in new technology (Filipovic 2008, p 6). Importance of privatization The Public sector plays a major role in the control of public facilities and activities. However, more often than not, production in the public sector is usually low and it is privatization of the sector's industries that can help to improve its productivity.

This is because the private sector usually operates in a different way than the public sector hence it is an important strategy that can be used to help meet the objectives of economic growth as it enhances productivity in the public sector (Bayliss, 2002, pp 609). Therefore some of the roles that privatization can play in order to improve productivity of the public sector include cost reduction. This is due to the fact that privatization of the public sector encourages the cutting of public expenditure. Thus the public sector is <https://assignbuster.com/the-role-of-privatization-in-improvement-of-productivity-in-public-sector-essay/>

able to release the scarce resources such that it allows the free markets to determine the allocation of these economic resources. What is more, privatization also helps the private sector to save on costs as it employs operation strategies that will ensure that the public works services save money and that they gain the support of the public.

It is also through privatization that a city can address the financial difficulties it might be facing due to the cost saving strategies that are usually employed once the public sector is privatized (Bayliss, 2002, pp 608).

Research also shows that private firms are able to deliver goods and services to the public in a more efficient way than the public sector can do. This is made possible by the fact that the private sector has a different approach when it comes to implementing incentives. For instance, the top management in the private sector is mostly encouraged by the urge to introduce and implement operations that will maximize their profits thereby encouraging high profitability of the firm. Innovative ideas influenced by such approaches are always bound to increase the productivity of organizations.

Contrary to this, the public sector's top management cares less about maximizing their profits. Besides what is more important to them is that they conform to the wishes of their masters (Bayliss, 2002, pp 608). Privatization also helps to improve the productivity of the public sector in that most private firms are usually listed in the stock exchange. This means that they have to be cautious of their operations lest their space been taken over by a competitor. Besides, credits are the sole responsibility of the firm therefore

they always have to up their game so as to ensure that they are not faced with debts and losses.

This is contrary to the public sector where management can just relax since the debts and losses will be covered by the public (Bayliss, 2002, pp 610).

Privatization also improves the public sector's productivity due to the operation strategies that they use. Moreover, high profitability also influences other positive factors within the public sector. These include among others; a reduction in the unit costs, output advancement together with constant levels of employment and investment. These factors are crucial to ensure that the production of the firm does not slack. (Bayliss, 2002, pp 610).

Moreover, privatization involves restructuring of the organization not forgetting that productivity improvements are also put in and this aggravates profitability gains. Privatization looks into cost-per-unit, sales-over assets and sales-over-employment ratios which contribute a great deal to increased productivity of the firm. Privatization is usually characterized with retrenchment which is a disadvantage to the employees. However, the retrenchment exercise helps the firm in costs reduction since most of the time the public sector is usually bloated by a large proportion of unproductive workforce.

The role privatization plays in improvement of productivity in public sectors Over the past years, the private sector has gained increased attention. Due to distance from most politics in any country, the private sector is key to any a significant transition of any economy. In turn, the growth of the economy

encourages the growth of the private sector while at the same time reducing the role of the public sector though overwhelmingly improving the productivity in the public sector. More so, this is because of the realization that the public sector performs poorly (ISBN, 2003, p. 1).

Most public sectors have over extended in many countries but at the same time, undermined quality of provision of the basic services. For example, health, transport, education and real estate sectors have suffered inefficient management (ISBN, 2004, p. 1). As a result, many privately owned organizations have since come up in an attempt to address such problems. This is highly favored by the small sizes of the private organizations, the reliance of the quality of their output and their drive to raise capital for future investments. Most private sectors have a better structure in their implementation of development.

Factors leading to their success in the improvement of public sectors include clearly defined of roles and responsibilities of the organization, expected outcomes from employees, a strict scrutinizing of the human capacity and skills and identification of required reforms (ISBN, 2004, p. 1).

Decentralization and privatization helps improve the manageability and productivity of the public sectors by reducing the size either by downsizing or reorganization to the desired size. This has been created by the distribution of resources with the private sectors thus making the public sector more efficient in providing quality and basic services to the public. The smaller an organization, the more manageable it becomes (ISBN, 2004, P.

4). As well, privatization organizations have broadened the access to essential services which has been of great benefits to the majority of a nation and the public sector. In short, this has benefited the public sector by a realization of good governance for a smooth running of the country and determining its way forward. The improvement and promotion of coordination within the public sector as a result of privatization encourages better development (ISBN, 2004, P.

3). In a bid to keep up with the stiff healthy competition from the private sectors, the productivity in public sectors has greatly increased as a result of administrative improvement of economic efficiency (Khan, 2003, p.).

Furthermore, privatization has increased the flexibility and stimulated the public sector to be able to meet program needs and realize their set goals. For example, by significantly lowering the operation costs of technology by the private sector when offering any innovation service to the public sector, not only does the public sector increase its efficiency but also experience a simplified way of performing different tasks within the sector like procurement (ISBN, 2004, pp.

-4). In addition to creating more time for the public sector to effectively manage its personnel. The private sector allows the public sector more time to be able to improve on the maintenance of its infrastructure and equipment eventually helping the sector prevent excess costs that may have been incurred should maintenance of such taken a longer time before any service is done (Mackinac Center, 1993).