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Privatization: An Interpretative Endeavor

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Summary

To reduce the conceptual and definitional problems associated with the concept of privatization, this paper divides it into *privatization operations* (i.e. ownership changes in the form of partial or full divestiture, liquidation, etc.) and the *process of privatization* (i.e. organizational and operational changes within SOEs, development of the private sector, rearrangement of state functions and strengthening of competition, etc.). Various motives and objectives of privatization; relationships among ownership, competition and regulation; and between ownership and management are discussed. Theoretical justifications made by different schools are briefly analyzed. Empirical studies by scholars in different countries comparing the performance of the public and private sector also are reviewed.

Introduction

In this paper an attempt has been made to define the term privatization in general. Therefore, this discussion is not directed towards the unique circumstances in Central and Eastern Europe (CEE), unless clearly specified. When almost every country in the world is moving towards privatization, partly due to dissatisfaction with the performance of public enterprises and partly due to ideology, there are bound to be different meanings of the term in widely diverse economies. Nonetheless, this does not restrain us from accepting or developing any one definition of privatization. Some (e.g., Fergusen, 1992, p. 490) have already cautioned that "privatization implies the reduction of state influence in the operations of the firm. Beyond this there is no universally accepted definition." Certainly, we should be careful to ensure that we are cautious when it comes to writing about privatization, "a term as broad and elastic as motherhood" (Daintith, 1991, p. 1).

Conceptual and Definitional Problems

A vast body of literature dealing with the subject has shown a lack of interest in precisely defining the term privatization. In fact, most of the time, it has been described rather than analyzed. Still, there is the possibility of dividing most of the writings into two broad groups. In the first group there are scholars whose only serious concern is the transfer of ownership rights from state to private entities (although they also do pay some lip service to competition, etc.). On the whole, this results in very limited definitions. In the second proposition, the term is mixed with the term "marketization", where all measures and policies aimed at strengthening the role of the private sector are considered as privatization. There are, of course, many intermediate paths, and scholars have taken advantage of all these routes.

According to Vuylsteke (1988), the most commonly used methods of privatization are: public offering of shares, private sale of shares, new private investment in state-owned enterprises (SOEs), sale of government or SOE assets, reorganization (or break up) into competent parts, management/employee buy-outs, and lease and management contracts.[1] Rapp offers ten broad types: sale of assets, sale of shares, dilution of public ownership by creation of shares, transfer of shares to workers, privatization of management, liquidation, privatization of subsidiaries, dismantling of monopolies, concessions, and deregulation (cf. Daintith, 1991, p. 1). Thiemeyer (1986, pp. 143-6) enumerates fifteen concepts of the term privatization in which this word has been used in international discuorse. Pirie (1988) proposes no fewer than 21 methods, starting from selling the whole of a public enterprise by issuing public shares to private substitution of services for defective public supplies. According to The Economist (August 21, 1993, p.16) there are at least 57 varieties of privatization.

Eliasson (cf. Brabant, 1992, p. 61) includes all forms of deregulation and entrepreneurship as privatization. The U.N. Economic Survey of Europe (1991-2,

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1 For a brief summary of characteristics, procedures, preferred applications and implementation issues of all these seven methods, see Vuylsteke (1988) pp. 152-3.

p. 204) defines privatization "as all those actions which take the 'state' (that is the political processes and its subordinated bureaucratic institutions and power centres) out of decision-making about ***at least*** (emphasis original) the allocation of usufruct of state-owned assets as quickly as possible." For "Eastern" economies, this survey divided the process into several stages. It comprises a number of distinct phases which have been captured under the notions of corporatization, commercialization, usufruct divestment and full divestment through sale or free distribution.[2] Mizsei (1992, p. 284), relying on what he calls more "economic" than "juridicial" aspects, regards "all forms of expansion of the private sector in the national economy (conventionally mesured by its share in GDP) as part of privatization process." Dallago (1994) singles out three different and alternative routes to privatization: denationalization, deregulation/liberalization, and franchising. Encapsulating all these concepts and dimensions Ramanadham (1991, p. 395) says, "the term privatization essentially denotes marketization or bringing the enterprise under the disciplines of the market." In addition, he argues that the "concept of privatization is in the nature of a continuum." While visualizing the difficulties of identifying any one aspect of the issue, Vickers and Wright (1988, p. 1) describe privatization "as an umbrella term for a variety of policies that are loosely linked by the way in which they are taken to mean the strengthening of the market at the expanse of the state."

For others, it is difficult to embrace these so-called umbrella terms because they believe deregulation and liberalization are important, but are an agenda in their own right. Therefore, they want a less confused, somewhat independent and precise policy-oriented category. As a result, Milanovic (1991, p. 15) and Estrin (1991, p. 160) regard privatization as the transfer from a public to private sector of ownership in such a way that private individuals become the identifiable ultimate owners. Bös (1991, p. 2) considers that "privatization is the partial or total transfer of an enterprise from public to private ownership." Similarly for Brzeski (1991, p. 17) "privatization is an orderly and legally sanctioned transfer of these [ownership] rights from the state or other public bodies to private entities - persons, partnerships and corporations," and he

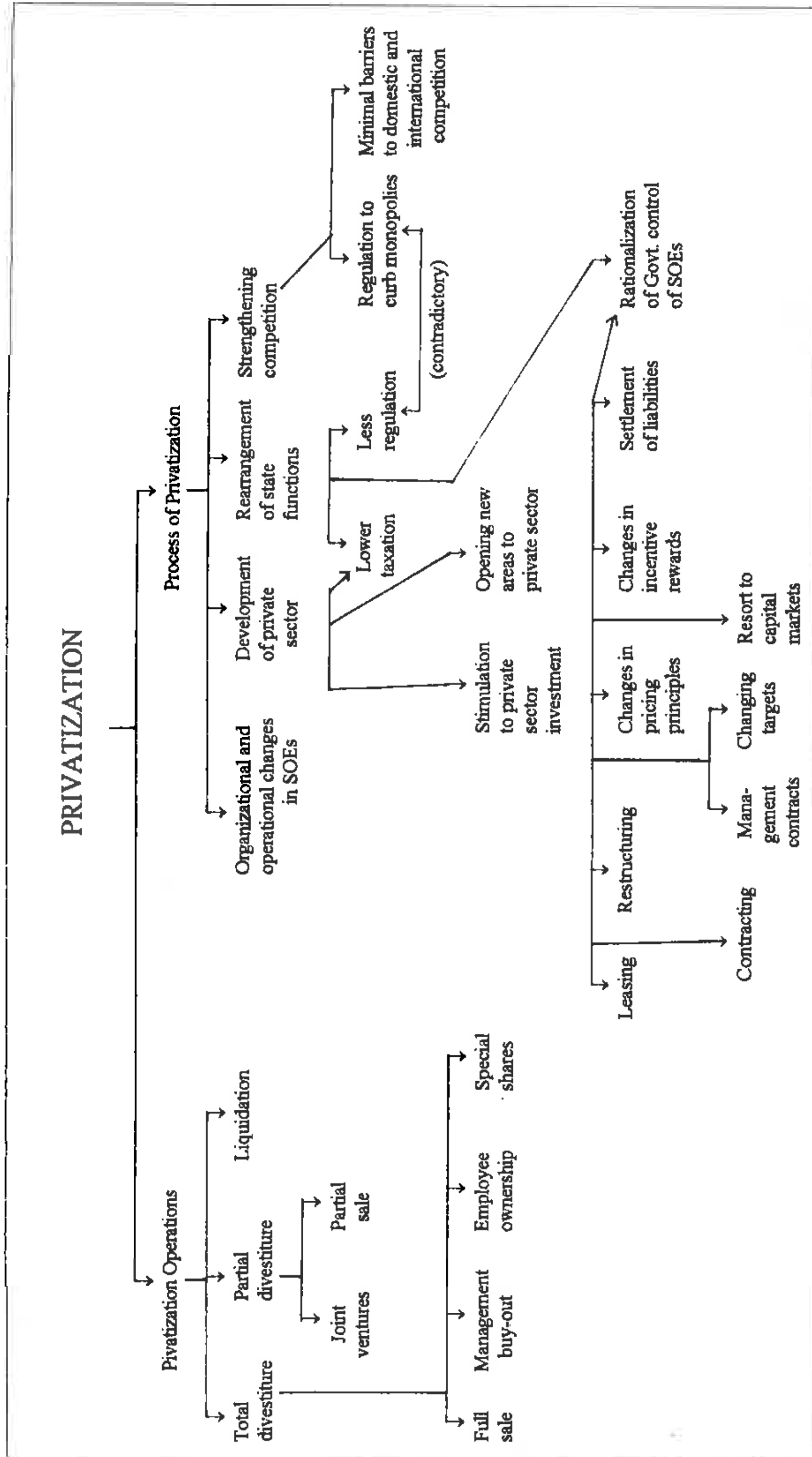
2 See "On Property Rights and Privatization in the Transition Economies," U.N. Economic Survey of Europe, 1991-2, pp. 191-255.

declares that the "crux of the matter is that privatization shifts the management of resources from the public domain to private entities" (p. 18).

The problem with almost all these notions about privatization is that there is some confusion regarding the operations of privatization and the process of privatization (see figure on page 10). Either both are being treated seperately and each part is claimed to be privatization or operations of privatization are criticized on the grounds that they do not accompany the features listed in the process of privatization. Although privatization operations and the process of privatization are not mutually exclusive, static or unidimentional - and together constitute privatization - the whole issue is country and enterprise specific. Any one point listed in the figure can be crucial for a particular enterprise, in a particular country, in particular circumstances. Therefore, it is inappropriate to assert that any one point is more important than another. In most countries both operations and process are moving simultaneously (though they may move at different speeds), yet there is no guarantee that both go in the same direction. Sometimes operations may grow but the process remains static or even declines or vice versa.[3]

3 Recent decisions by the Clinton administration to increase government involvement in health care in the USA and Andreas Papandreou's cancellation of the partial privatization of Greece's telecommunicatiions clearly suggest that privatization never moves in one direction.

Figure



In fact, privatization is an ideal condition like perfect competition. More and more countries these days are moving towards privatization but no country has "completed" it. It can only be asserted that in some countries more privatization operations have been completed and the process of privatization is in the advanced stages. This view of the process of privatization is definitely different than that of Bös (1991, p. 19) who considers it as a "move from public to private ownership," i.e., technical stages of privatization operations like a shareholding company, floatation process, competitive bidding etc.

What stems from the discussion is that operations of privatization and process of privatization together constitute the term privatization. Privatization operations have limited targets for changing ownership rights (which may be crucial in certain circumstances) and should be judged accordingly. The privatization process is a relatively long-term commitment and involvement which might have started long before the privatization operations and may continue with many ups and downs.

Privatization and Efficiency

One of the strongest convictions of privatization is that it will ensure either static and/or dynamic efficiency in production processes. Static efficiency gains result from productive efficiency (minimization of costs for a given output) or from allocative efficiency (meaning that the firm produces socially appropriate levels and types of output, using socially optimal input combinations). North (1992, p. 3), however, argues that the key to sustained economic growth is adaptive rather than allocative efficiency. For him adaptive efficiency "is concerned with the willingness of a society to acquire knowledge and learning, to induce innovation, to understand risk and creative activity of all sorts, as well as to resolve problems and bottlenecks of society through time." In fact, his description of adaptive efficiency is very close to a view of dynamic efficiency gains which "relates to the way the use of resources changes over time, as managers devise and adopt more effective systems of organization and new products and processes are introduced" (Ferguson, 1992, p. 490).

It is believed that the main reason for an increase in efficiency is the change in management behavior (see Bös 1991, pp. 7-8). In their benchmark model, Vickers and Yarrow (1988, pp. 35-39) deal with the trade-off between internal (productive) and allocative effficiency in which a monopoly firm is privatized. They demonstrate that while privatization may increase internal efficiency because of the change of the firm's objectives from welfare maximization to profit maximization, it can worsen allocative efficiency unless the behavior of the firm "is held in check by an appropriate framework of competition and regulation" (p. 35). Ramanadham (1991, pp. 398-403) has broken the efficiency argument into several parts-, he explains that it is believed that after privatization enterprises are exposed to market forces, that there are more incentives for managers to maximize performance, that shareholders' control directs the enterprise toward profit, that private enterprises undertake innovations eagerly and successfully, and that there are threats of takeovers. However, as he himself notes, many of these arguments are not conclusive and are subject to debate. Various studies quoted in Bhaskar (1992) show that takeovers, particularly in the

U.K., did not seem to be aimed at poor performance, that financial performance showed no improvement after takeover, and that the acquirers tended to make losses. Bös (1991, p. 59) also declares that "in the light of recent literature, it is not difficult to reject the hypothesis that takeover threats are the main reason why privatization may lead to higher efficiency."

In fact, measuring the efficiency effects associated with changes of ownership are very complex, because "such a transfer could have dynamic consequences not readily captured in data on current outputs and an increase in efficiency depends on aggregate output, whether in the end that output benefits government, labour, renters, consumers or thieves" (Vernon, 1989, p. 144). Moreover, a change in ownership is not simply a question of pure economics, but fundamentally one of political economy. ***The economist's typical assumption that the aim of the privatization is to improve efficiency is rarely shared by the real players of the game*** (Aharoni, 1992).

Additional Motivations for Privatization

Apart from efficiency arguments, privatization has been justified on many other economic, political, social and wealth distribution grounds.[4] Bishop and Kay (1989, p. 643) argue that at different times many objectives have been sacrificed for others. They believe that there is no consistent rational policy of privatization. Rather it has appeared to meet particular political needs at certain moments in time. The reality behind this multiplicity of objectives according to Kay and Thompson (1986, p. 19) "is not that policy has a rather sophisticated rationale but rather (that) it is lacking in any clear analysis of purpose or effects and hence any objective which seems achievable is seized as justification." On the other hand, Letwin (1988, p. 50) maintains that this flexibility has proved to be an advantage rather than a difficulty, making privatization a welcome opportunity even in countries which might at first have seemed to be hostile territory. But the dilemma with privatization is that despite having so many objectives "divestment in state-owned assets in market economies has not unambiguously led to lower product prices, improved allocative efficiency, ameliorated internal efficiency in privatized enterprises, brought about people's capitalism or generated better service or quality of delivery" (U.N. Economic Survey of Europe, 1991-92, p. 196).

4 For different motivations for privatization, see Economic Survey of Europe 1991-2, Table 6.6, p. 212.

Theoretical Justifications for Privatization by Various Schools of Thought

In neo-classical economics, the main emphasis is on competition rather than ownership to achieve efficient resource allocation. The property rights literature was very young in the 1960's as shown by Furubotn and Pejovich (1972) in their comprehensive survey of literature on property rights. But in the past two decades there has been remarkable growth in the writings on property rights (see mainly Alchian, 1987; Alchian and Demsetz, 1972; Furubotn and Pejovich, 1972,1974; Jensen and Meckling, 1976 and references quoted in all these writings). According to this school, public enterprises are condemned to inefficiency owing to the very fact that their owners have neither the motivation nor sufficient means to compel enterprises to efficient management.

They argue that the public reward system connected with public ownership provides decision-makers with weaker incentives to work towards efficient outcomes (Pejovich, 1990, p. 33). Therefore, "***ceteris paribus***, the direct effect of transferring ownership rights is going to be positive. At the same time, its effect on the degree of competition is going to be at least non-negative and its effect on the efficiency of regulation is going to be rather positive than negative" (Jasinski, 1992, p. 169). Brabant (1991, p. 517), however, suggests that ownership per se has little to do with enhancing the allocation of scarce resources. Therefore, for him (Brabant, 1992, p. 67) "it is useful to distinguish between ownership per se and (the) usufruct component of property rights."

The broader area of the property rights school, the neo-Institutional economics, also forwards arguments for privatization (see Eggertsson 1990; Furubotn and Richter, 1992). Furthermore, public choice scholars (mainly see Mueller, 1989; Niskanen 1971; Tullock, 1987) argue that public enterprises offer tremendous opportunities for politicians to interfere in the affairs of the enterprise. They are frequently used to achieve electoral, regional or

employment policy goals. Sometimes they become a medium to assert certain ideological and party viewpoints or a means to achieve power.

In the ongoing debate in Western countries on privatization and deregulation (see especially Bishop and Kay, 1992; Bös, 1991, 1993; Kay, 1993; Swann, 1988; Veljanovsky, 1989; Vickers and Yarrow, 1988 etc.), scholars have argued for the most part that nationalized industries are inefficient and unresponsive for various reasons. Inspired by these arguments Winiecki (1991) classifies state owned enterprises as inferior institutional arrangements and declared that "argument in favour of private enterprise is ***eo ipso*** an argument in favor of privatization of state owned enterprises" (p. 414). These statements may be premature as Bouin and Michalet (1991), after analysing many theoretical writings on privatization, concluded that "theoretical analysis developed to date is still fragmentary. No satisfactory conceptualization of the rationality of the privatization of capital of public enterprise has yet been developed" (p. 125).

Ownership and Management

Many authors believe that the key factor determining the efficiency of an enterprise is not whether it is publicly or privately owned, but how it is managed. For that matter, the "simple dichotomy between the manager of a state-owned enterprise and the manager of a private enterprise may prove inadequate for serious research" (Vernon, 1989, p. 148). According to Kay (1987), ***ownership*** of an asset corresponds to holding the residual financial value in that asset and ***management*** involves the control of those functions which are not explicitly specified in the contract subjecting the managers to the regulatory authorities and/or the public or private shareholders. Therefore, the transfer of a public enterprise's capital to the private sector will not necessarily lead to a substantial transfer of management methods. This situation arises from the previous behavior of the public enterprise or from the regulatory environment (Bouin and Michalet, 1991, p. 115). Theoretically, even the reform of management can take place by means of leases or management contracts without affecting ownership rights. Hammer, Hinterhuber and Lorentz (1989, p. 19) demonstrate that the "mere selling of shares in state-owned industries cannot create new powerful management nor can it guarantee a company's survival." Contrary to these arguments, the property rights school generally believes in the "classic firm" where managers and shareholders are identical and a change of ownership of state-owned firms necessarily leads to the adoption of management objectives and criteria that respond to the desires of shareholders.

Comparison Between Public and Private Enterprises

To understand the effects of ownership on performance, many empirical studies have been made by scholars in different countries. Although there are doubts regarding the real significance of a study, say about refuse collection in Canada for the steel industry in Russia, it may still be a useful intellectual exercise to look into these studies.

The arguments of property rights theorists and other adherents of privatization suggest that public enterprises perform less efficiently and less profitably than private enterprises. However, existing evidence is not very clear cut. To illustrate the point, either we can look into studies comparing the performance of privatized companies prior to and subsequent to ownership changes and/or survey the studies comparing public and private enterprises.

The evidence on the performance of enterprises before and after ownership changes is very limited. The reason is that most of these privatization operations are too recent to permit a systematic analysis of their effects. Secondly, this comparison is complex and problematic. The macroeconomic conditions are different at different times. Some of the enterprises may be part of a large public corporation before ownership changes. New investment and restructuring also makes the comparison difficult. In the case of natural monopolies strong government regulation exert influence on profitability. Above all, the aggregate effects of these privatization operations in one sector on other related sectors (e.g., the effects of British electricity privatization on coal industry) cannot be ignored altogether.

A multi-firm U.K. study by Hartley, Parker and Martin (1991) concludes that while privatization operations do seem to be associated with improved corporate performance in some cases, it is not in itself a guarantee of improved performance. Yarrow (1986) maintains that the evidence does nothing to undermine the presumption that given workable competition and the absence of

serious market failures, private ownership is generally to be preferred to public ownership. Stevens (1992, p. 13) says "the U.K. experience has shown, if efficiency gains are to be achieved in large public utility or natural monopoly, it is not sufficient merely to privatize the enterprise." A recent study by the World Bank (Kikeri, Nellis and Shirley, 1992) examined 12 privatization operations in four countries (Britain, Chile, Mexico and Malaysia) and found that divestiture led to higher productivity and faster growth in all but one case, the exception being Mexicana Airlines. Another World Bank study found that 41 firms privatized by public offerings in 15 countries - Chile, Jamaica, Mexico and Singapore among them - increased returns on sales, assets and equity, raised internal efficiency, improved their capital structure and increased capital expenditures.[5]

Another major privatization operation took place in Bangladesh, where the share of the state sector in GDP was brought down from nearly 90% to 40%. Bhaskar (1992) has demonstrated that the change in ownership did not result in sufficient dynamic efficiency gains to permit expansion of output and employment in those companies. In his analysis of jute and cotton textile industries he shows that these operations reduced employment in the jute industry, reduced output in both jute and textile industries (more than 10% in both) and even reduced profits in cotton textiles. In the jute industry, it had negative effect on employment for all categories of workers, but reduction in employment had affected white-collar employees more than manual workers. Employment expansion was not a serious goal but the negative effect on output was a serious disappointment. Lorch (1992) also concluded that in Bangladesh textile industry, privatization itself did not seem to achieve major economic gains. The treasury benefitted little or not at all from privatization. The other objectives were not served either "as privatization had hardly any impact on handloom weavers, garment exporters, and consumers" (p. 148).

In an interesting recent study based on the U.K.'s privatization experiences, Kay (1993) concludes that the effects of privatization are clearly positive. However, ***the most important influence on firm behavior is competition rather than ownership as such***. The improvement was the result of change in

5 As reported in World Bank Policy Research Bulletin, Vol. 3, No. 4, 1992, p. 3.

management style of both public sector and privatized companies. He argues that ***privatization has clearly exemplified the drive to take seriously the need to install a commercial spirit in the public sector.***

In comparing the performance of public corporations with those of private firms there are not only plenty of studies but also surveys of these empirical studies. Most of these studies are about advanced industrial countries. The area where the greatest number of comparative studies have been conducted is public utilities, i.e., electricity, water, garbage collection or service industries viz. airlines, railroads, insurance, etc. Very few comparative studies have been made in the manufacturing sector. Some surveys have reported that the evidence favors private sector performance as found for instance in Alessi (1980, cf. Bös, 1991). On the basis the performance of the of Fortune 500 outside the USA, Picot and Kaulmann (1988, p. 313) conclude that "as predicted by property rights theory, the empirical evidence confirms that privately owned large industrial corporations exhibit superior performance compared with their government-owned counterparts, especially with respect to productivity and profitability" and "privatization is one option available to improve government owned enterprises" (p. 312). Bennett and Johnson (1980) assert that without exception the empirical findings indicate that the same level of output can be provided at subsequently lower costs if output is produced by the private rather than public sector.

After examining more than 50 studies which compared ownership effects in numerous sectors in five countries (but mainly the USA and Germany), Borcheding, Pemmerehne and Schneider (1982) found that in 40 cases private supply was unequivocally more efficient. Further, they conclude that "the literature seems to indicate (1) private production is cheaper than production in publicly owned and managed firms, and (2) given sufficient competition between public and private producers (and no discriminatory regulation and subsidies), the difference in unit cost turn out to be insignificant." They add: "it is not so much the differences in transferability of ownership but the lack of competition which leads to often obscured less efficient production in public firms" (p. 136).

Many have argued that most of these studies have not attempted to test the effect of ownership in a competitive environment. Therefore, a look into more

recent studies that have attempted the comparison in competitive areas is appropriate. Boardman and Vining (1989) maintain that of seven reviews[6] that have surveyed the empirical literature on performance of different sectors, only two[7] papers claim to find superior efficiency of private firms. Their survey of 55 studies of different sectors primarily from North America "suggest(s) an edge" for the private sector but results vary considerably across sectors" (p. 5.). Moreover, they argue that a major problem with these studies is that "they only address the relationship between performance and ownership type in certain limited contexts" (p. 7). In their owned test of the property rights theory, they compare the performance of 419 private companies, 58 public companies, and 23 mixed public-private companies, all working in a competitive environment. All the firms were taken from the 500 largest non-U.S. industrial firms compiled by Fortune in 1983. Boardman and Vining conclude that "after controlling for a wide variety of factors, large mixed enterprises and state-owned enterprises perform substantially worse than similar private enterprises" (p. 26). They also conclude that "partial privatization may be worse, especially in terms of profitability than complete privatization or continued state ownership" (p. 26).

Naqvi and Kemal (1991) demonstrate that most of the a priori arguments in favor of ownership changes are not convincing in Pakistan's context. Five out of eight corporations which run public industrial enterprises in Pakistan have been reasonably profitable even from a strictly commercial point of view. Within the same industry some firms make losses while others make profits. In two out of three industries where both public and private firms operate simultaneously and produce similar goods, the pre-tax return on equity of the public sector units is significantly higher than those of private sector units, but in one case (fertilizers) the reverse holds true.

Chang and Singh (1992), in their survey of 21 studies comparing the performance of public and private sectors from advanced capitalist countries, found results "extremely patchy" and declared that regardless of the criteria used by these studies, "there is no general overall evidence of relative inferior performance of public enterprises" (p. 31). As regards to developing countries,

6 Alessi, 1990; Bennet and Johnson, 1979; Borcheerding, 1983; Borcherding, Pommerehne and Schneider, 1982; Boris and Boothman, 1985; Boyd, 1986; Millward and Parker, 1983. (All quoted in Boardman and Vining, 1989).
7 Alessi, 1980; Bennet and Johnson, 1979.

they argue that many of the studies are static and therefore not particularly appropriate for these countries where "learning" plays an important role. Secondly, most of available studies are biased in the sense that very few studies exist for countries and sectors where the public sector is deemed to be efficient. An OECD study (Pera, 1989) argues that some empirical evidence shows that when faced with competition, public enterprises are as efficient as private companies. It concludes that although deregulation and privatization usually have positive effects, these benefits differ substantially from those predicted before deregulation and privatization.

On the basis of all these studies, we may infer that in a competitive environment the performance of privately owned enterprises is perhaps better than their public counterparts. But in the case of natural monopolies there is not much evidence to show that ownership changes may lead to significant and lasting improvement. On the other hand, few privatization operations in the economy may compel other public sector units to change their behavior and attitudes. However, the issue is still unsettled and "at present, divestiture can only be supported or opposed on the basis of ideology, theory, or politics, since there is only the most limited empirical support for either position" (Jones, Tondon and Vogelsang, 1992, p. 52).

Ownership, Competition and Regulation

The issue which has come up with these studies and has been seriously argued in the West and now in the "East" is the relationship between ownership, competition and regulation. Many scholars have argued that transfer of monopolies, without opening up the market structures to domestic and international competition, is highly unlikely to yield substantial improvement in terms of economic efficiency (see Heller and Schiller, 1989; Hemming and Mansoor, 1988; Knieps, 1990; Yarrow, 1986). Kay and Thompson (1986, p. 24) stressed that "it is not ownership as such but the interaction of ownership and competition that promotes efficiency." Hensher (1986, p. 156), however, argued that it is not necessarily actual competition, but what is important is a competitive environment. In other words, the potential threat of competition may be sufficient.

Ramanadham (1991, pp. 413-19) shows that although one of the main arguments for privatization is to relieve the enterprise from the unproductive intervention of the state, paradoxically privatization introduces the involvement of the state in direct or indirect ways "during privatization" and "after privatization." This happens because "privatization is itself a government activity" (Vickers and Yarrow, 1991, p. 130). There will always be a need for regulatory intervention by the state if transfer of public or natural monopolies takes place without any changes in market structures. Regulations also may be required for many social and environmental concerns. But experience in many countries has shown that it is difficult sometimes to regulate the behavior of firms after ownership changes. On the other hand, there is an abundance of evidence to suggest that regulated private property can be quite inefficient (Gayle and Goodrich, 1991, p. 426). In these circumstances, "when a firm is both privatized and regulated, much depends upon the nature of the game between the firm and the government" (Vickers and Yarrow, 1991, p. 114).

Two of the protagonists of this debate, Vickers and Yarrow (1988), conclude that allocation of property rights does matter because it determines the

objectives of the owners of the firm; the change in ownership rights affects the incentive structure and hence the behavior of management. However, these changes are determined by the complex set of interactions among factors that include the type of ownership, degree of product market competition, and effectiveness of regulation. They argue that the latter two have a greater effect on performance than ownership per se. The same argument has been repeated by the U.N. Economic Survey of Europe (1991-2, p. 198) and Brabant (1992, pp. 68-9) and both have mentioned that ownership, competition and regulation are essentially three shorthand expressions for a complex set of interlocking influences.

The complexity of many of the writings which have given substantial importance to competition and regulation is due in part to the fact that these are, to a certain extent, reactions to those who claim that a change in ownership will almost automatically increase efficiency. The fundamental difficulty with most of the writings on privatization to date is that scholars are probably trying to describe country and enterprise specific problems through some "universal economic laws" applicable to all sectors of economies at all stages of development. In fact, beyond the dichotomy of public and private firms at the microeconomic level, we find a **minimum** of eight types of firms in most parts of the world:

1. Public, competitive, non-regulated firm.
2. Public, competitive, regulated firm.
3. Public, non-competitive, non-regulated firm.
4. Public, non-competitive, regulated firm.
5. Private, competitive, non-regulated firm.
6. Private, non-competitive, non-regulated firm.
7. Private, non-compatitive, regulated firm.
8. Private, competitive, regulated firm.

In these given situations, the ideal textbook case of privatization will be to convert the operations of the firms 1, 2, 3, 4, to the operation of 5. But in actuality, a firm may convert itself into 6, 7, 8 as well. Therefore, we have to concentrate on the conditions of the "process of privatization" which may have substantial influence upon the firm.

Furthermore, as Vernon (1988, p. 144) has shown, the origin of the funds which are used in privatization operations also determines output effects on the macro level. If these funds are diverted from domestic private capital investment or from consumption, the depressing effects on output needs to be taken into account. If funds are brought from abroad, an expansionary effect through an increase in money supply and decline in interest rates may be visible. The output effects of the disposition of funds also can be different if it is used for the reduction of government debt rather than to improve the infrastructure or provide social safety networks. In reality, however, "it has come as a shock to some countries to realize that a programme designed to ease the fiscal burden can in the short to medium run cost money" (Nellis and Kikeri, 1989, p. 668).

Final Remarks

This paper has divided the term privatization into two constituent parts: the operations of privatization and the process of privatization. The demarcation is essential for a clear understanding of international trends towards privatization. From this discussion, it can be concluded that ideology aside, the decision to go for privatization operations should be enterprise specific. This decision should depend on the comparative advantage of a particular unit remaining under state ownership. Profits of an enterprise are only one indicator of this advantage. A public enterprise showing profits may not be enjoying efficiencies and losses do not always reflect the inferiority of an enterprise. In fact losses of public enterprises can be divided into legitimate losses (losses due to social [non-commercial] objectives) and illegitimate losses (losses purely due to inefficiencies). Most of the time it proves more effective if privatization operations coincide with the process of privatization. However, due to their nature, actual privatization operations have always been only a fraction of those announced, let alone of those debated. On the other hand, the process of privatization also keeps on changing, both in forward and reverse directions, depending on the national and international economic conditions, and the political mood of the period, and due to the inevitability of "disappointment" with any mode of preference (public or private).

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