2. LITERATURE REVIEW

The term privatisation is not always precisely defined. The question of the relative merits of private and public ownership is a vexed one. For some, the terms 'private' and 'public' are respectively synonymous with efficiency and waste, whereas for others they induce images of the exploitation of market power and the promotion of social equity (E.L. Lynk, 1993). According to Paul Starr (1988), privatisation covers a wide range of ideas and policies, varying from the eminently reasonable to the wildly impractical. Yet, however varied and at times unclear in its meaning, privatisation has unambiguous political origins and objectives.

A considerable number of studies have been conducted to understand the meaning, significance and the impact of privatisation on society and almost all agreed that privatisation is fundamentally a political event as much as it is a commercial and economic process. It is considered as the full or partial transfer of productive operations and assets from the public sector to the private sector, which can take several forms such as contract-out, franchise, concession and leasing.

2.1 The Economic Theory

Privatisation changes the distribution of power within a society, as it diminishes control of the economy by the state. As James Waddell (1990) pointed out, privatisation is advocated as a means to reduce the governments role in the economy, partly as a philosophical matter but principally because governments have performed badly in that role. The objectives in these situations are often simply to extricate the governments from heavy financial commitments and instead focus scarce resources on other needy areas such as education and social welfare. And in most countries, privatisation is one part of a broad program of structural, economy and financial institution reform.

The theory tends to favour privatisation insofar as it represents a move towards competition under conditions where markets are expected to work efficiently for survival. From this perspective, privatisation becomes a way to move activity from a less efficient to a more efficient form – a tool of economic adjustment rather than radical reconstruction (Young and Broadkin, forthcoming). However, in recent years the requirements for efficient markets have been understood more liberally. Imperfect competition, externalities, increasing returns to scale and sometimes, inequalities of wealth prevent the market from achieving optimal performance. By that virtue, some form of public ownership and regulation is justified.

Markets too need not be perfectly competitive to perform efficiently; they only need to be contestable (Baumol, Panzar & Willig, 1982). Like all economic models, this theory is principally concerned with efficiency and has little to say about the effects of organizational design on other values. To subject an organization to extreme market forces may generate greater efficiency but as George Yarrow has observed, it could also turn the activities back to the public sector to be protected from such pressure (Yarrow, 1986). The economic model cannot say for sure whether or not privatisation is a sensible choice.

However, one thing is certain though, governments are increasingly coming under budgetary strains and privatisation has been desirable for its likely effect to deflate and reduce demand on the state. Many countries whose public sectors expanded sharply in recent decades now find themselves with rising debt and strong resistance to higher taxes. Privatising state-owned firms, promises to bring some fiscal relief particularly where the treasury has been heavily subsidizing unprofitable enterprises. Privatising may help to cut expenditures and boost revenues and by converting debt to equity, governments may improve the overall financial structure of their economies. Stuart Butler of the Heritage Foundation argued that privatisation can cure budget deficits by breaking up public spending. By the same token, it will redirect aspirations into the market and encourage a more entrepreneurial environment (Butler, 1985).

2.2 The Political Concept

The value of privatisation depends in practice on a nation's position in the world economy. In the wealthier countries, it is easy to treat privatisation purely as a question of domestic policy, whereas in the less developed countries, privatisation means de-nationalization, that is a transfer of control to foreign investors raising the prospect of diminished sovereignty. This normally triggers passions of nationalism and the privatisation, in the most likely case, would be politically resisted and blocked, thus undermining the idea of free markets.

Privatisation with political inclination attracts more support not only from economists with strong beliefs on liberalized markets but also from bankers, contractors and other corporations whose businesses stand to benefit if the public sector goes private. But this is seen as more of pure self-interests as efficiency is normally compromised. When privatisation brought about little or no change in top management, when enterprises go up for sale to political allies and when public offerings are purposely under-priced, are all signs that make privatisation an occasion for managerial enrichment and entrenchment. No doubt, privatisation is a legitimate tool to sharpen the focus of government on activities most important to the general public, but efficiency should not be put at stake in such decisions.

Nevertheless, as a matter of policy, governments may or may not require public enterprises to be run on a commercial, business-like basis. Politics can be use to make decisions on state versus private ownership. Where the government is the only domestic institution confidence and capable enough, then the case of government enterprise may be strong. On the other hand, where governments are unable to avoid disrupting public enterprises, then privatisation should be the answer. In most part of the world, government enterprises holds a powerful grip over civil society and privatisation may well be justified as a means of releasing society from bureaucratic domination.

2.3 The Practical Approach

Privatisation, as some advocates pointed out, represents an effort to alter the conditions of political competition by promoting more market-oriented values. To alter the public-private balance is to change the distribution of material and symbolic resources influencing the shape of political life. Ultimately as one form of privatisation entails another, we may be moving from the realm of the open and visible into a domain that is more closed to scrutiny and access. And in the process, whether or not intending to change, we are likely to narrow our involvement, interests, and vision of a good society and a good life. John Nellis, in answering the question whether privatisation was necessary, argued that not only do privately owned firms usually outperform public enterprises, but privatisation is the only way to 'inoculate' a company against political interference (Nellis, 1994).