Privatisation of state enterprises in the 20th century a step forwards or backwards? A comparative analysis of privatisation schemes in selected welfare states.
Nugraha, Safri

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2002

Link to publication in University of Groningen/UMCG research database

Citation for published version (APA):

Copyright
Other than for strictly personal use, it is not permitted to download or to forward/distribute the text or part of it without the consent of the author(s) and/or copyright holder(s), unless the work is under an open content license (like Creative Commons).

Take-down policy
If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Downloaded from the University of Groningen/UMCG research database (Pure): http://www.rug.nl/research/portal. For technical reasons the number of authors shown on this cover page is limited to 10 maximum.
SUMMARY

Subject of the study
This study attempts to ascertain the ideas, experiences and actions behind privatisation schemes. It systematically analyses the privatisation processes of certain state enterprises and compares these practices in some selected welfare countries: the United Kingdom, the United States of America and Indonesia. It approaches the subject matter from two different viewpoints. The first of these investigates the role state enterprises play in the welfare programs of welfare states. The second investigates the activities of state enterprises in those countries where privatisation is a prerequisite for improving the performance of state companies.

In most welfare countries, privatisation is primarily based on the economic thesis that the private sector is more efficient than the government. Moreover, privatisation may also be defined purely in ideological terms as a preference for private ownership rather than public ownership. In a political sense, many have claimed that a big and powerful government represents a danger, not only to democracy but also to people’s way of life. Since it frees the people from the so-called ‘dirty hands’ of government and prevents it from interfering in welfare provision, privatisation has come to symbolise a new way of organising society in most countries.

In general, there are two key points to government reform where privatisation is concerned. Firstly, by reforming their State Owned Enterprises (SOEs), governments have moved to establish ‘World Class Companies’ from their state enterprises, and governments freely permit these enterprises to compete with each other on the global market. Privatisation is the harbinger of an imminent era of business globalisation, an era dominated by independent, unaccountable and worldwide corporations. To meet these times on an equal footing, governments should continue to behave as entrepreneurs. Governments should continue to make profit and not just spend people’s money on current expenditure and daily operations. Government can achieve this by lightening its workload. It should regulate less and manage less, and do so more efficiently and competitively.
The privatisation era is marked by a reduction in government’s direct involvement with the people, granting permission to the private sector to provide public services to the people and its retention of certain regulatory powers in some activities where it deems fit and necessary. Floating state telecommunications enterprises has long been recognised as a hallmark of privatisation, since many governments commenced their privatisation plans by first selling off their telecommunications companies. For example, in the UK, the British government launched its privatisation programme by privatising British Telecom (BT). In Indonesia, the two telecommunications companies, Telkom and Indosat, were also the first companies to be privatised by the government. Similar examples can also be found in other countries. Since governments began to believe that telecommunications monopolies were no longer suitable for current conditions, policymakers in those countries decided that telecommunications sectors should be privatised and have their markets opened up to private–sector competitors. Moreover, new developments in telecommunications systems and services are also a primary consideration of many governments who have privatised their telecommunications companies.

**Privatisation in some welfare countries**

In most countries, privatisation programs reflect the state’s need to seek out different approaches to providing welfare. Since modern states began providing welfare provisions to its people, state involvement in people’s affairs has expanded immensely. Since many social–welfare activities are handled directly by government, and because there was a strong preference on government’s part to act in a monopolist and protectionist way, people in some countries no longer wanted welfare provisions to be executed under government arrangements, but that they should be carried out under private arrangement. Moreover, they also wanted the private sector to take over the provision of goods and services previously managed by government. For example, in the US, most Americans do not want government to expend budgetary funds on welfare provision in a wasteful manner. They lobby the American government to co–operate with the private sector to remedy the current situation.

In developed countries, privatisation is practised because of the popular belief that private hands are more efficient than those of government (public hands). The heart of privatisation schemes is that government should reduce its own role whilst increasing that of the private sector, especially in welfare provision. In order to reduce its role in the public services sector, government should transfer many public service works into private hands. After transferring many public service tasks to the private sector, government can carry out its core tasks of governing the country more effectively and efficiently and permit the private sector to provide public services to the people.

In the UK, privatisation focuses on the performance and commercial role of the government and that of the UK’s state enterprises, which were generally bad.
In the US, privatisation focuses not only on the commercial role played by the government, but also every other government property and enterprise, which were almost all poorly managed and loss-making operations. A more efficient and competitive way of life for both governments and enterprises is the main idea behind privatisation in developed countries. Between the styles discerned by this study, the British style seems the most attractive plan because it has encouraged many countries to reform their state companies and transfer those companies to private hands.

In developing countries, internal economic problems are considered as the main motives behind privatisation plans. Privatisation in these countries is considered as an economic plan with which one can solve all economic problems. Alongside the internal economic experience, external economic motives are among the factors that lead to privatisation programmes being implemented in developing countries. It has been observed in many countries that certain international agencies coerce developing countries into conducting privatisation programmes, and have been doing so for many years now. This is usually achieved as a result of the high level of dependence on the part of developing countries on those developed world agencies in matters of financial assistance, the need for hard foreign currency, loans for development programmes within those countries and investment matters. For example, the Indonesian government which took its country over the privatisation threshold was virtually coerced into doing so by international banking agencies.

Indonesian privatisation is not only confined to the act of improving the performance of state companies, it is also defined as the act of transferring government jobs over to the private sector. It may furthermore be concluded that the Indonesian administration adopted two styles of privatisation simultaneously, the American style — focusing on privatisation of public services — and the British style — focusing on privatisation of state companies.

**Conclusions**

It is true that privatisation programmes in most welfare countries, both developed and developing, have met with success. Many scholars in these individual countries have recorded these results. The success of privatisation can be judged in terms of the improvements made in performance, productivity and profitability of both public services and state enterprises. In welfare states, committed governments have already convinced themselves of the success of privatisation in their countries. Most governments believe that privatisation is, simply put, the only solution for government to take. For the citizens of these countries, privatisation means the reform of the government’s role in business and society. In practice, privatisation has provided many governments with a wake-up call from the previous burden of their functions in various matters of state. In short, privatisation has achieved many of the goals intended by these welfare nations since they introduced privatisation schemes many years ago.
Nevertheless, it should be remembered that there are also many undesirable effects caused by privatisation schemes. These have received literary and media attention since the privatisation agenda was officially launched by Prime Minister Thatcher in 1979. The objections to privatisation in both developed and developing countries include the transformation of public monopolies into private monopolies, the increase rather than decrease in prices for services supplied by privatised enterprises, privatised enterprises remain under ineffective management, etcetera. Moreover, the British consuming public also raised questions regarding the UK’s regulatory bodies.

In an economic-political sense, while the privatisation prerequisite has forced some benefits onto developing countries, the loss of democratic freedom in many nation states to determine their own economic policies, including decisions concerning privatisation, has been demonstrated with the advent of the privatisation era. The governments and people of many developing countries often refer to the privatisation of their state enterprises as an ‘unlikely takeover’ process.