International Journal of Current Advanced Research
ISSN: O: 2319-6475, ISSN: P: 2319-6505, Impact Factor: SJIF: 5.995
Available Online at www.journalijcar.org
Volume 6; Issue 10; October 2017; Page No. 6846-6856
DOI: http://dx.doi.org/10.24327/ijcar.2017.6856.1027

Review Article

REVERSE PRIVATIZATION AND NEW GOVERNMENT REFORMS: A REVIEW OF THEORY AND EVIDENCE

Sima Siami-Namini*

Department of Agricultural and Applied Economics, Texas Tech University

A R T I C L E I N F O

Article History:

Received 15th July, 2017
Received in revised form 19th August, 2017 Accepted 25th September, 2017
Published online 28th October, 2017

Key words:

Reverse Privatization, Government Reform, Reversal of Government Policy, Efficiency.

A B S T R A C T

Privatization has been an important aspect of government reform for several years. The last decades of the 20th century witnessed a profound experiment to increase the role of markets into the government service delivery. But, this experiment has failed to deliver adequately on efficiency, and then led to a setback and reversal of a government policy. However, reverse privatization process is not a return to the direct public monopoly delivery model of the past. Instead it heralds the emergence of a new balance position which combines use of markets to reach efficient decisions. This paper describes both theory and evidence of the reverse privatization in selected countries.

INTRODUCTION

Privatization and contracting out of public services has been an important aspect of government reform for several decades. Recently, the analysis of the effects of privatization in the countries show that there is a sign reversal in its trend. Reverse privatization means a reversion from contracted ownership of an enterprise or services to governmental ownership and provision. In this context, several countries like U.K., Australia, New Zealand, Canada, and U.S. began to bring previously contracted services back in house in a process of reverse privatization. This reassertion of the government role is not the same before. Instead we observe governments using markets in building competitions, managing monopoly and reducing transactions costs of contracting. The role of the state in public service delivery has changed over the last few decades. The old public administration emphasized direct government delivery, and a separation of politics, and managements to insure due process for citizens and limit outside influence among public employees. But, the New Public Management (NPM)[1] promotes market-based management techniques to increase efficiency and citizen choice (Siami-Namini, Sima, 2011). In this context, Public Choice Theory is one of intellectual foundations for market approaches to public goods (Tiebout, 1956).

The Theory of Public Choice views the government bureaucrat as a neoclassical actor seeking to maximize public budgets and public power (Niskanen, 1971). Government services production is expected to be excessive, inefficient and unresponsive to citizen desire for choice. Privatization is offered as a panacea to break apart government monopoly, promote efficiency through competition, and provide citizens with greater choice in a market context. At least at the local government level, a market does exist for public services providing both competitive pressures on local government managers to be efficient, and choice to mobile citizen consumers (Tiebout, 1956). Lowery (1998) challenged the market foundations of public choice, arguing that public services are at best quasi-markets with a single purchaser (government) and a small set of alternative private producers in any given local market.

Empirical studies of privatization have failed to find consistent cost savings, and while some attribute this failure to study design, others point to lack of competition, poor contract specification, and principal-agent problems as primary sources of failure (Boyne, 1998a; Hodge, 2000). They argue industrial organization theories that address the structure of the market, firm, and regulatory environment are more effective in explaining lack of cost savings under privatization. Contracting increases separation between

*Corresponding author: Sima Siami-Namini
Department of Agricultural and Applied Economics, Texas Tech University

[1]. The objective in New Public Management (NPM) of retaining ultimate central control while devolving responsibility is well illustrated in Osborne and Gaebler's account of what they consider to be decentralization. They list four reasons for introducing decentralized institutions: more flexible; more effective than centralized institutions; more innovative than centralized institutions; and generate higher morale, more commitment and greater productivity. These advantages, although not proven, are consistent with those usually offered in support of decentralization under old public administration (Scott, 1996).

ownership and management, and industrial organization gives attention to control mechanisms that help improve the alignment between ownership objectives and management activities (Vickers and Yarrow, 1988).

Designing contracts to stimulate dynamic competition and reduce the likelihood of future monopolization is difficult (Laffont and Tirole, 1993; Bolton and Dewatripont, 2005). Some argue problems with lack of cost savings are fixable through more sophisticated public management (Eggers, 1997; Savas, 2000). In fact, many public service markets are natural monopolies characterized by economies of scale. While this may favor private production as private firms could aggregate service delivery over a range of municipalities (Donahu, 1989), it also might favor public monopolies in a better position to insure monopoly rents which redistributed to public benefit rather than private profit. The form of market governance-competition or monopoly depends on the frequency of transactions, uncertainty and information asymmetries in the production process, and asset specific investments (Williamson, 1999; Warner and Bel, 2008).

The purpose of this paper is to review the concepts of privatization and its reverse both theoretically and empirically. In next section, I present theoretical literature and evidence of reverse privatization. Then, I will focus on the evidence of reverse privatization in selected countries. Finally, in last section, I conclude and provide a number of recommendations.

Theory and Evidence of Reverse Privatization

Privatization and Objectives

Both theories of government failure and market failure rely on the market paradigm to define the necessary level of government intervention. Public Choice Theory argues liberal policies that allow market-like solutions may replace central planning and improve efficiency of the political process (Buchanan and Tullock, 1974).

Through privatization, private firms compete for public service delivery. It is considered as an ideology both in terms of political and economic. In terms of political ideology, the privatization is to be a reaction to the growth of government and bureaucracy (IIAS and IISA, 2011). The image of the state is changing, and the government has turned move to private sectors for services. In terms of economic ideology, privatization reflects the desirability of reducing the size of the public sector and its involvement in the market economy (Chandarasorn, 1995). Based on the concept of Adam Smith, administration in the public sector is inefficiency and doom to failure due to the lack of incentives of public officials and their self-interests.

Privatization is supported to promote efficiency by decreasing the government's role. In theory, privatization can result in economic gains, even in cases where market failure may justify some level of government interventions (Megginson and Netter, 2001; Djankov and Murrell, 2002). The main objectives of privatization in the countries can be listed as:

- Cost savings and introduction of a market economy;
- Expansion of the private sector as an instrument for growth and development, and reduction of public government size (Siami-Namini, 2015);
- Creation of job opportunities;
- Improved efficiency in the public sector and curbing inflation;
- Making the provision of a public service more responsive to consumer demand (Tiebout, 1956);
- Change in the role of government from command, control and regulate to monitor and promote as well as provide incentives for the private sector to join in producing government services;
- To increase national budget revenues through the proceeds obtained from the privatization process;
- Privatization brings in additional funds which can aid in reducing an internal deficit or an external debt (Lieberman, 1993).
- Attracting foreign and domestic investments in the form of hard currency or modern technologies, and helping boost the export of non-oil commodities;
- Gaining access to modern managerial techniques and getting away from outdated and traditional managerial methods (Hoang Anh, 2006);

Methods

Privatization can be categorized into the several forms such as: Divestiture; Joint Public-Private Venture; Contracting Out; Franchising; Farming Out; Leasing; Voucher; Grant; User Charges; Government Withdrawal from Services; and Liberalization (Chandarasorn, 1993). Furthermore, the main methods of privatization can be considered as

- ***Share Issue Privatization (SIP)****;* Selling shares of government on the stock market (Most common); Share issue 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 purchasers, and transaction costs may be higher.
- ***Asset Sale Privatization****;* Selling the entire firms or part of it to a strategic investor, usually by auction or using Treuhand model.
- ***Voucher Privatization****;* Shares of ownership are distributed to all citizens, usually for free or at a very low price. This method is used in most of the Eastern and Central European countries, former Soviet Republics, and Mongolia (Katz and Owen, 1997).

Reverse Privatization

Despite two decades of experience with privatization, both planning expert, and local governments are increasingly questioning the effectiveness of such conventional privatization. Many local governments are beginning to reverse their privatization, due to the host of problems that have arisen (Warner, 2008).

As mentioned above, a reversion from contracted ownership of an enterprise or services to governmental ownership and/or provision is called reverse privatization. Such a situation most often occurs when a privatization contractor fails financially and the governmental unit has failed to purchase satisfactory service at prices it regards as less than with state-ownership or self-operation of services. Another circumstance may occur when greater control than viable under privatization is determined to be in the governmental unit's best interest. Occasionally, national security concerns may be the source of reverse privatization actions when the most likely providers are non-domestic or international corporations or entities. In 2001, for instance, in response to the September 11th attacks, the then-private airport security industry in the U.S. was nationalized and put under the authority of the Transportation Security Administration.

To understand more specific patterns of privatization reversal, however, by first allocating development to private and then to state enterprise, Offe's emphasis on criteria of state intervention when the provision of a service or goods is not profitable but necessary can guide the analysis of government's reversals of privatization. Should, for instance, a regional hydroelectric system not be profitable to an entrepreneur, yet be necessary for enhancing a region's growth, social pressures for enhancing a region's growth can arise for nationalization so that the government may provide the needed infrastructure. Second, the finding shows that Offe's differentiation between allocating and productive state intervention, permitting a distinction between merely allocating natural resources, including water-power rights, to private developers and directly intervening in the market to reclaim such rights and produce hydroelectricity to improve private accumulation conditions for a variety of industries is valid. Third, the finding shows the interventionist state's limited ability to plan because it may not be allowed to do so by those to whom it is supplying goods or services is relevant, then the state may overbuild infrastructure because state planning can become uncoordinated when it tries to match the size and timing of infrastructure with industrial growth (Offe, 1972).

For all these reasons, a closer examination of the actual consequences and implications of privatization is critically important before adopting what is increasingly viewed as a failed strategy.

Privatization Issues

This section presents an overview of the important emerging issues on privatization as below:

Costs; Early surveys concluded that privatization was linked to cost savings (Savas, 1987; Domberger and Rimmer, 1994; Domberger and Jensen, 1997). But, meta-analysis and a broader review of studies including empirical works from Europe and other regions of the world found that the evidence is mixed and concluded that no direct and systematic relationship can be established between costs saving and private production of public services (Hirsch, 1995; Boyne, 1998b; Hodge, 2000; Bel and Warner, 2006). As shown in Table 1, the reality is that market for both water distribution and waste collection are rarely competitive. In waste collection, the only potential competition is for the market - for the initial contract. Economies of scale require monopoly production, at least at the neighborhood or municipal scale. In the case of water distribution, due to the nature of a fixed infrastructure of sunk costs, long term concessions are the norm, and this creates incomplete contracts. However, understanding market structure is the key of privatization. A high degree of market concentration is common in many local services, especially water distribution and waste collection. Without market management by government, we can expect dynamic degradation of competition. Local governments can use inter-municipal cooperation as an alternative to privatization to exploit scale economies (Warner and Hebdon, 2001; Warner and Hefetz, 2003; Warner, 2006). They can also promote the establishment of public firms to install competition in the market (Bel and Costas, 2006). Therefore, market management by local government is a critical element to insure privatization success. Whether government engages directly in the market to enhance competition or achieve economies of scale, or uses its regulatory and oversight authority to track and control costs in the clear message from empirical research is that government must stay in the game as a market manager (Hefetz and Warner, 2007; Warner and Hefetz, 2008; Bel and Costas, 2006; Dijgraaf and Gradus, 2007).

Table 1 Privatization and Cost Savings: Meta-Analysis of Thirty-Five Empirical Studies, 1965-2006

	Number of Studies Showing		
	Private Production Chapter/ More Efficient	**Public Production Chapter/ More Efficient**	**No Cost/ Efficiency Difference Between Public or Private Production**
Water Distribution	3 Studies	4 Studies	10 Studies
Waste Collection	6 Studies	1 Studies	11 Studies

Source: Bel and Warner, 2006

Accountability and Control Including the Problem of Corruption; There are several notorious instances of corruption in the contracting out (privatization) of public services, often associated with increased costs far beyond the original contract estimates. In Wisconsin, for instance, two construction companies and four company executives 'were indicted on charges of conspiring to rig bids on at least 30 state of Wisconsin projects, totaling more than $100 million of work', including public works projects ranging from highways to bridges and airports. In 2004, a Cincinnati Enquirer investigation found that 'lax controls and casually administered contracts are common', in contracting out by state and local governments. Such problems in the privatizing of public services raise serious problems of direct democratic accountability, since there are generally few clear avenues through which private contractors can be held accountable. In some cases, contractors themselves are responsible for the oversight of their own work, as in the notorious, multibillion-dollar 'Big Dig' project in Boston, where the Bechtel Corporation was responsible for much of the oversight as well as a substantial portion of the engineering design. As one critic puts it, public accountability is diminished because complaints from citizens cannot be directly and quickly addressed by the state or local government. In addition, private companies are not subject to the same public scrutiny as public entities, which are required to operate in an open arena.

Effectiveness and Quality of Services; the contracting out of public services does not necessarily result in more effectiveness or higher equality services. One of studies widely cited 'poster child' for disastrous privatization by the state is the case of Texas, which contracted with the now infamous private contractor. As one report states, 'Computer systems failed, costs mounted and 30,000 children ended up being from the Children's Health Insurance Program (CHIP) because of administrative bungling.

Economic and Employment Impacts; the cost for privatized services may not be less than the cost of such services provided directly by public sector employees. As documents by the progressive States Network and other critics of privatization, the transaction costs of 'contracting out' are often over looked in cost comparisons, which are problematic to begin with. Generally, private contractors expect to make a profit by the provision of such services. So that acertain portion of the public funds used to pay for privatized services goes to a profit margin for the provider. This is turn reduces the funds available for service recipients as well as employees, in terms of adequate wages and benefits. There may be unforeseen costs of a shift in employment from full time jobs with benefits to more use of part-time labor, typically without benefits. In this context, a recent study by Indiana University found that full time employees by part-time workers. Workers with lower wages and without health care benefits are more likely to rely on public services for assistance and health care, and are contributing less in taxes to public revenues, thus increasing public sector costs indirectly.

Threats to Constitutional Rights*;* One very troubling trend in privatized public services is the fact that private contractors can be given the authority to determine initial eligibility for, and hence access to public services and benefits. There may be limited avenues for appeal in such cases. For instance, the task of determining eligibility for Temporary Aid for Needy Families(TANF) has sometimes been contracted out to private contractors, who are not accountable to the public. Texas and Florida have also privatized their prescreening for public benefits such as food stamps and Medicaid[2] to further complicate matters, some state contractors have moved their call centers to offshore locations such as India. Ultimately, assigning such critical governmental functions to private sector contractors raises profound threats to the constitutional rights of the U.S. citizens.

CASE STUDIES

United States

Support for privatization is strong in the U.S. economy. Conventional wisdom suggests that privatization is higher among cities. The real objective is to subject government programs wherever possible to competition and in market principle. In fact, the government is to perform the role of providing services without producing them. Siedman *et al.* (1989) identify techniques designed to obtain the benefits of privatization and market discipline as below:

- Contracting for management and generation of government owned facilities, systems management and technical supervision, and delivery of goods and services;
- Guaranteeing and underwriting loans made by private financial institutions;
- Financing programs by user charges rather than by general tax revenues;
- Chartering quasi-private and quasi-governmental enterprises to achieve public purpose;
- Distributing purchasing power to eligible consumers by vouchers which enable them to buy designed goods and services on the open market;

The U.S. survey of Alternative Service Delivery to measure the level of privatization, conducted by the International city/county Management Association (ICMA), is repeated every five years, and covers all cities over 10,000 in population and all counties over 25,000 in population. In this survey, trends were relatively flat, and there was increasing experimentation with privatization after 1992. But contracting out peaked in 1997 and 2002 showed a return to public delivery and a dramatic increase in mixed public and private delivery. As contracting out has fallen, mixed public/private delivery has grown. This mixed delivery occurs when governments both provide a service directly and contract out a portion. This creates competition between public and private providers, maintains government capacity and internal knowledge about the process of service delivery, and ensures continued citizen involvement in the service delivery process (Warnerand Hefetz, 2008). Econometrics models for 1992, 1997 and 2002 show a priority for market management concerns, but emergence of a balanced concern with market management and citizen voice in 2002.

The challenges of local government service delivery are about more than efficiency. Local government leaders and citizens alike recognize the need to balance multiple objectives including: service quality; citizen participation, and economic efficiency. This explains the emergence of a mixed market position (See Figure 1). Reverse privatization grew dramatically over the decade from 11% of all service delivery in the 1992-1997 period, to 18% of all service delivery from 1997 to 2002 (Hefetz and Warner, 2007). ICMA added a question to its 2002 survey asking why managers brought previously contracted work back in house and the primary reasons where problems with service quality, lack of cost savings, internal process improvement, and citizen support for bringing the work back in house (Warner and Hefetz, 2004). Statistical analyses of this shift over the decade 1992-2002 (Hefetz and Warner, 2007) show the increase in reverse contracting is only partially explained by transactions costs. Reverse contracting is part of a market management approach, but also is a response to increased attention to citizen voice. These results confirm the existence of a new balanced model of local government reform which gives attention to both markets and citizen voice.

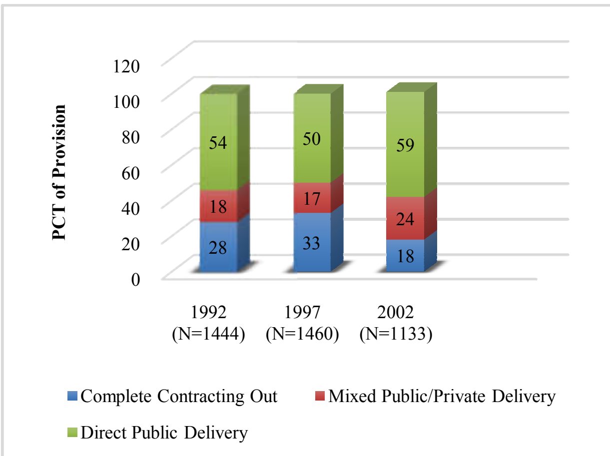

Figure 1 Trends in Local Government Service Delivery, 1992-2002

China

China has come a long way since ‘reform and opening up’ policies adopted in 1978. The radicalization of reform toward global integration since the early 1990s, further boosted by the country’s entry into the World Trade Organization (WTO)

[2]. Medicaid is the U.S health program for eligible individuals and families with low incomes and resources.

in 2001, has kept the Chinese economy frantically growing at the expense of its social and natural environments.

China concentrated first on productivity improvement by initiating enterprise governance structures that stressed autonomy and better incentives and then later by adopting long-term managerial contracts with specified financial targets. China also created markets at the margin, parallel to the planned economy, by introducing the'dual-track system' in the state industrial sector and by lowering bureaucratic barriers to entry to the once state-monopolized industries. The reforms brought about fundamental improvements in output and productivity. However, the profitability of the state-owned enterprises (SOEs) declined substantially and most of them were losing money[3] in the early 1990s. Many SOEs were deeply in debt, and most of them were local SOEs, controlled by city governments (Xu, 2008). Thus, some city governments initiated privatization since the early 1990s.

Steinfeld (1998) outlined the problems of the SOEs reform in China in the 1995-1996 including: lack of hard budget constraints, lack of legally clear and enforceable property rights, and lack of incentive structures. Under severe political and ideological constraints to contain the risks of privatization, a prevailing privatization strategy chosen by most Chinese city governments is insider privatization, selling ownership of SOEs to their employees and managers. Employee ownership was particularly popular at earlier stages of privatization, whereas management buy-out dominates when privatization becomes large scale when the mandate of privatization was sanctioned by the central government.

The local privatization experiment was sanctioned as a national policy by the central government through several steps. However, due to political and ideological constraints, privatization in China has been in a camouflaged form that the term 'privatization' is officially disguised as 'transforming the system' in Chinese. It means changing ownership structures of SOEs, and includes partial privatization and full privatization, also includes ownership restructurings without involving privatization. Specifically, it covers public offering, internal restructuring, bankruptcy and reorganization, joint ventures, employee shareholding, open sales, and leasing (Garnaut *et al*., 2005).

Without declaring privatization to be the goal as such, a significant part of Chinese power holders and their patronage circles have engaged themselves in privatizing the public sector even more effectively than many countries with an official program. The state's share of China's industrial GDP had shrunk to less than 20 percent by June 2007. Between 1996 and 2004, total number of SOEs dropped from 2.16 million to 192 thousand, and a reduction rate of 90.1 percent. Among the 509 'core enterprises' operating in 2003 only 161 were left in 2006. By early 2006, more than 80 percent of Chinese companies listed domestically were either private or quasi-private in various shareholders systems.

Under the central government, key firms overseen by the State-Owned Assets Supervision and Administration Commission (SASAC) are now limited to those in the petroleum and refining, metallurgy, electricity, telecommunications and military industries. But, even here protection has been weakened and barriers to entry lowered, resembling loosened state control in the capital market.

However, many SOEs were hollowed out during restructuring when the manager could move funds or equipment to personal accounts or 'kin' companies, or perhaps file bankruptcy for the firm, either before its sale to allow him an opportunity to buy it cheap or afterwards to evade debt liability. This kind of privatization and other forms of rent seeking were rampant due to the absent of basic institutional monitoring and 'the right sort of central state intervention to protect SOEs from local predators'.

Similar opportunities were also seized by some foreign corporations, which began by buying partial stocks of a valuable Chinese SOEs, turning it into a joint venture, and then deliberately making losses by importing expensive raw materials or machine parts and artificially lowering its value to create the most conditions for a final acquisition. International capital has aggressively participated in privatization in China. Between 2003 and 2006, foreign spending on acquiring Chinese firms grew 12-fold relative to total Foreign Direct Investment (FDI) in the country.

In terms of the social consequences of privatization, the 'restructuring program has led to a systematic erosion of labor interests, as it has been accompanied by severe measures against workers, including collective layoffs, deprivation of benefits, ruthless labor rights abuses, and brutal working conditions'.

Despite paying in unaffordable economic, social and political cost, the restructures enterprises nevertheless made little improvement in management and efficiency. In this context, first step is to examine the rational for privatizing SOEs in its strongest exposition based on cost-benefit analysis. Secondly, the minimal scope of state sector must be defined within a public welfare oriented economy, transitional as much as itsresult, so that an optimal mixture of that sector and privately and cooperatively managed business can be delineated. And thirdly, at the theoretical level, to be confronted is the classical doctrine, pushed to an extreme in certain neoliberal propositions, but private property is the foundation of any market economy while public sectors are a drag on growth in national wealth and competitiveness, and must be squeezed to the slightest if not eliminated altogether. The factors depicted below show that the rise and fall of SOEs in China have been historically contingent on specific national developmental strategies and state policies (Siami-Namini, 2017). The transition from a command to a market economy is surely an unprecedented challenge, but there is no reason why SOEs cannot flourish in a well-regulated market economy - and ultimately a socialist market that the Chinese are seeking to create.

- There is the larger context of global liberalization and deregulation, and China's participation in globalization; however, the peculiar conditions of competition are unfavorable to both SOEs and small business in the private sector.
- The erosion of government support, socio-political and coordinative as much as financial, has deprived SOEs of the legitimate priority they used to enjoy in the national agenda;

[3]. Higher tax rate among a set of discriminative policy pressures was the main cause of SOEs loss making. Lack of management accountability resulted in the wealthy managers in money-losing firms.

- Many SOEs units still provided social and semi-governmental functions, including welfare facilities and arrangements for their employees, redundant and retired include, and local communities.

In General, the original guideline, that the public sector should retain a dominant position in a mixed economy, is under siege. SOEs in the global transformation have come not only dispensable but seen as obstacles to be demolished. In this context, if public ownership is not the cause of failed SOEs, then private takeovers cannot be the right prescriptions. The orientation of China's reform course since the 1990s in general and SOE reforms needs to be scrutinized and pondered in popular deliberation. In the end, against privatization is only part of a broader struggle against an unjust and ultimately self-destructive transformation euphemistically justified by economic rationality and market freedom?

Malaysia

In Malaysia, privatization has been described in terms of the transfer of enterprise ownership from the public to the private sector. Privatization can be strictly defined to include only cases of the sale of 100 percent (means the complete transfer of ownership and control of a government enterprise or asset to the private sector), or at least a majority share of a SOEs, or its assets, to private shareholders. In Malaysia, the term 'Privatization' is often understood to include cases where less than half of the assets or shares of SOEs are sold to private shareholders, with the government retaining control through majority ownership.

The Malaysian government summed up its five arguments for privatization in its Guidelines on Privatization (EPU, 1985), as following:

- To reduce the 'financial and administrative burden of the government';
- 'Promote competition, improve efficiency and increase productivity';
- 'Stimulate private entrepreneurship and investment', and thus accelerate economic growth;
- To help reduce 'the presence and size of the public sector, with its monopolistic tendencies and bureaucratic support';
- To help achieve the New Economic Policy (NEP) objectives;

According to several criteria, privatization in Malaysia made good progress, especially in terms of the government's own declared objectives. In terms of raising efficiency and productivity, for instance, it is generally agreed that the establishment of TV3 introduced some competition into the television broadcasting industry previously dominated by the government's two channels. Privatization is also credited with having reduced the government's financial burden. Privatization has reduced the size of public sector employment as well. According to the Privatization Master Plan (PMP) in 1991, the number of public-sector personnel declined by at least 54,000 with their transfer to the private sector. However, it has been argued that the problems of public-sector personnel hiring, firing, promotion, and training remain. Some adverse consequences of privatization to be considered as following:

- Increased 'costs' to the public of reduced, inferior or costlier services, for instance, the unit charge for local telephone calls was increased by 30 percent just before Telekom Malaysia was incorporated;
- The implications of two sets of services, for instance, one for those who can afford privatized services and the other for those who cannot, and hence must continue to rely on public services, for example, medical services and education;
- The effects of minimal investments by private contractors concerned with short-term profits as in the case of Indah Water Konsortium (IWK) (For more details, see Gomez and Jomo, 1999), which made few of the investments it had promised to make when it proposed sewerage privatization;
- Increased costs of living and poorer services and utilities - especially inremote and rural area - due to 'economic costing' of services, for instance, telephone, water supply and electricity;
- Reduced jobs, overtime work, and real wages for employees of privatized concerns;
- The contractionary consequences of fewer jobs or lower wages, or both;

Much of privatization in Malaysia has involved projects with high capital costsand large externalities which once regarded to be beyond the capacity of the private sector to bear, and is the reason why the state had traditionally undertaken many of these investments in the first place. State support is thus necessary in the form of soft loans or subsidies because of the high costs associated with many privatization projects and social considerations in the provision of these goods.

The four cases of the 'renationalization' of Indah Water Konsortium (IWK), the Light Rail Transit (LRT) system, Malaysian Airlines (MAS), and Proton highlight problems relating to the structure of privatization, which undermined incentives, and the mode of privatization, which was inconsistent with the existing institutional framework. Performance in all four cases was further constrained by multiple and conflicting government objectives. Difficulties in each industry due to high capital costs necessitated some form of state subsidy, which in turn required an effective regulatory framework to ensure that the state did not subsidize inefficiency. However, regulation was weak and privatization did not change the institutional relationship between the government and private sector. As a result, privatization did not offer amore credible promise for the state not to intervene, nor did it increase the threat of state sanctions where performance targets were not met. This part of paper explains both privatization and its reversal in regards of IWK and Proton.

Indah Water Konsortium (IWK); the privatization of sewerage services was fraught with information and institutional problems. Poor data on asset condition and performance raised operating costs and affected the concessionaire's ability to meet service and environmental targets. The absence of information precluded proper determination of tariff levels necessary to structure incentives and ensure efficiency. The government also crucially failed to account for consumer unwillingness to pay tariffs which affected the project's viability. The political sensitivities surrounding sewerage charges demand low tariffs, usually below operating cost which then requires some form of subsidy. Rather than doing this, the government structured tariffs so that non-domestic customers subsidized domestic customers. This may have been to ensure the project was self-financing, but possibly also because the state lacked the experience and technical ability to deal with the complexities of subsidies and incentive regulation. Nonetheless, the government was unable to implement and enforce this tariff structure, and revised the tariff downwards three times following public refusals to pay, with each revision affecting the operator's financial performance and ability to continue operations.

Proton; the national car project was conceived without fully accounting for industry characteristics and problems, and without a clear strategy to become competitive. While Proton sought to secure technology, and increase its production capacity to achieve economies of scale, it had no plans for exports which were needed to overcome the constraints of a small domestic market, and the company remained inefficient, continuing to rely on state protection. The company was also burdened with its vendor development program. Privatization offered the possibility of financing Proton's technology development and capacity expansion, and altering the relationship between the enterprise and government, offering a more credible promise for the state not to intervene. As learning rents were needed for Proton to become competitive, privatization also increased the credible threat of sanctions where performance targets were not met. However, this relationship did not change and Proton continued to depend on protection to remain profitable while remaining constrained by wider government objectives. While there were improvements in its production capacity, exports, technology development and local content, Proton failed to meet its own targets. Progress was slow and occurred largely after its renationalization. This suggests that private ownership was unable to sustain the significant capital investment required in the auto industry. Failure was also due to the government's inability or unwillingness to remove protection and expose Proton to greater competition given its national importance and the government's continued vested interest.

Performance in the four above cases can be evaluated in terms of how privatization was designed to meet its objectives. Privatization aimed to finance the capital expansion needed to expand coverage of the sewerage system (IWK), construct an urban rail system (LRT), increase flight capacity (MAS) and has tentechnology transfer and production capacity (Proton). Efficiency gains were expected from greater incentives associated with private ownership. However, the choice of industry was problematic and privatization was poorly conceived, unable to address problems specific to each sector. There was no formal monitoring or regulatory mechanism in the case of the LRT system, MAS and Proton. This was partly due to the state not having the technical capacity to do so and the personalized nature of the selection process. All four candidates were closely connected to sections of the ruling Malay political party UMNO, with their selection based on government objectives to create a group of Malay industrialists. However, the choice of candidates was poor, and this was reflected in substantial debts of their other companies, which subsequently affected their ability to finance the privatized projects/enterprises. The government later acknowledged that its owner-manager model had failed when it eventually brought in professional management following renationalization.

Iran

In Iran, the early effort toward reducing the state sector was made in the First Development Plan (1989-93). The declared goals were: to cut back the number of SOEs; to get the government out of its 'non-essential' functions, and to increase total national-factor productivity. Iran used several privatization methods to transfer the ownership of its SOEs. Private sale through negotiation has perhaps been the most disappointing one. The use of this method was sharply criticized by the Parliament for the resulting underpricing of assets and questionable transfers. Public sale of enterprise through auction or Share Issue Privatization (SIP) is the method currently used to transfer SOEs in Iran. The above method has a good track record in Eastern Europe, and particularly in Hungary where the private sector is relatively strong. This method has the potential to be successful in Iran because of Iran's long experience with free enterprise and the resolve of the current government to respect private ownership. In fact, many of the SOEs were private companies before being nationalized in 1979 and 1980. But, the sale of SOEs moves so slowly because of several reasons.

In 1992, the procedure of privatization had to be stopped due to widespread reports of flagrant corruption, cronyism and no-bid sales of money making enterprises to selected groups at below-market prices[4]. However, privatization was carried out under the Second Development Plan (1995-1999) mandate according to a special Parliament law limiting the transfer of public assets only to workers and war-veteranson specially favored terms.

As total sales figures annually fell considerably below budgeted sums in the first ten years of privatization, and the whole program failed to achieve the objectives of downsizing the bureaucracy, the Third Development Plan (2000-04) devoted a special section to the process. Accordingly, the Privatization Organization of Iran (POI), the High Council on Shares Distribution and a series of Conglomerates (or Holding Companies) called 'mother' corporations were established (MPO, 2001).

The holding companies cover many large enterprises (See Table 2). Fars-Khoozestan Cement (12 million shares at $9.7 million), Tehran Cement (2.6 million shares at $4.9 million), and Behshar Industries (4.5 million shares at $3.4 million) are among the enterprises sold (or scheduled for sold) during March 2002-March 2003.The data, also categorized according to the method of sale (SIP).

The Fourth Development Plan (2005-09) followed and managed SOEs. In general, the privatization plan currently consideration covers a variety of industries and institutions that historically have been owned and operated by the government. These include elementary and secondary education, mining industry, and primary operations in the oil industry, airport management, mobile telecommunications, and utilities.

[4]. In May of 1993, Tehran Stock Exchange (TSE) officials announced that, among the 122 government owned companies admitted, 19 were completely sold to private investors.

Table 2 Holding Companies Formed and Enterprises Sold During March 2002-March 2003 Holding Companies

Holding Companies	Total Number of Enterprises	Sold Via Share Issue	Sold Via Auction	Sold During First Half of the Year	Sold During Second Half of the Year
Privatization Organization	208	136	73	137	71
Organization of National Industries	89	21	68	76	13
Organization of Petrochemical Industries	11	8	3	10	1
National Oil Company	3	0	3	3	0
Organization of Development and Renovation	27	10	17	17	10
Total	338	174	164	243	95

Source: The Handbook of Second Seminar on Privatization Prospects in Iran, Niroo Research Institute, May 2002.

In assessing the magnitude of privatization, the following cases must also be kept in mind[5]:

- Some major purchasers of ‘privatized’ shares were financial subsidiaries of state banks, state insurance companies, and other semi-public enterprises that were not part of the private sector. A major portion of total 'privatized' assets also consisted of transfers to the Social Security Fund and the Government Employees’ Pension Fund as part of the treasury’s past-due contributions (not truly ‘private sector’ participants).
- During the privatization exercise the government, instead of shrinking as mandated by law, had become ever bigger.
  In general, several factors are frequently cited for the slow pace and insignificant scale of privatization in Iran, as following:
- There was an absence of national consensus about the very benefits of privatization;
- Since each state enterprise often embodied the economic power of a political or clerical faction in the country, a source of employment and income to faction supporters, and a vehicle for transferring rent to its satellite private businesses, there was a great deal of reluctance by managers, who feared losing these prerogatives;
- There was a lack of enthusiasm on the part of potential investors because enterprises that were destined for privatization were not highly profitable;
- Even a few profitable entities offered for sale had annual returns of between 10 and 15 percent at best;
- Extensive deficiencies in the operation of the TSE, where privatized shares were to be traded played against their attraction;
- With the country’s formal capital market nearly monopolized by inefficient and struggling state banks and insurance companies, the public’s access to funds for financing purchases of privatized shares was highly limited;
- There was strong opposition by the politically active labor lobby;
- There were significant ambiguities in the Third Plan law regarding priorities in the sale of public enterprises;
- Iran’s small and orphaned private sector had neither the technical nor managerial capabilities for absorbing the bulk of privatized businesses;
- But by no means least significant, the pervasive and exclusive definition of the‘the State sector’ in Article 44 of the Constitution kept many risk-averse private investors from purchasing shares of key industries that were still clearly categorized as belonging to the state;
  In fact, the ambiguities embodied in Article 44 of the Constitution were indeed partly responsible for the slow progress of privatization. Consequently, the general policies of the Article 44 of the Constitution were approved in May 2005 in several Parts. For instance, parts A and C set up the essential course for government actions as
- Part A deal with basic policies aimed at expanding in the role of the non-public sectors and preventing the unnecessary growth of the government. First, it essentially puts an end to government monopoly in the commanding heights of the economy. Furthermore, it calls on the government to transfer to the non-public sector any involvement in the domain outside Article 44 by 20 percent a year.
- Part C complements Part A by calling for the overhaul of the state-dominated economy through divestiture of existing activities and assets in a wholesale manner. Accordingly, the role of government is to change from direct ownership and management of enterprises to policy-making, guidance and overseeing. The private sector is to be strengthened and assisted in its international competitiveness. To these ends, 80 percent of the shares of SOEs, covered under Article 44, shall be ceded to the private sector, joint stock cooperative companies and non-state publicly-held companies. Part C also provides other enabling requirements for wholesale divestiture in terms of shares pricing, sales condition, publicity and other related matters.

The new scheme under the Guidelines also faces a multitude of challenges. In fact, the privatizations in Iran have been criticized for different reasons. In this respect, some observers have argued that this kind of 'privatization' is modeled on the voucher distribution programs of Russia and Czechoslovakia in the 1990s, which, at least in the case of Russia, led to the rise of the oligarchs. The public-sector ranges between 60 and 70 percent of Iran’s GDP yet. The quasi-government sector, wherethe state still provides funds, stuff, and has either majority or minority control, rangesaround 10 and 20 percent of GDP.

During the nearly two decades of privatization efforts, the public sector has continued to expand; private savings and investments in relation to GDP have remained the same; and national-factor productivity has declined. The number of

[5]. Reliable data regarding total privatized assets are not available.

major SOEs listed in the comprehensive annual budgets has reached more than 500 from less than 270 in 1989, and their share of total public expenditure has risen to 73 per cent from about 53 percent. Figure 2 shows the trend of total budget expenditure as percentage of GDP from 2000 - 2007.

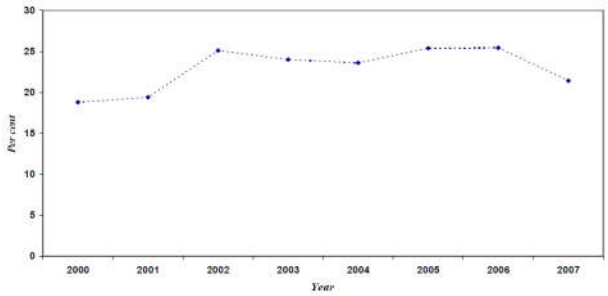

Figure 2 Total Budget Expenditure (% of GDP)

In Iran, privatization is not an option but a necessity, and true privatization requires:

- A clear legal recognition of private ownership rights with solemn guarantees regarding the impossibility of expropriation without due compensation;
- It calls for the sanctity and security of contracts, business transparency, and a modernized and private banking system, removal of inhibiting regulations, wage-price decontrol, trade liberalization and a market-friendly labor code;
- It requires a modern business and commercial law with proper safeguards against monopoly, unfair trade practices, and deceitful advertising strengthened by special provisions against stock fraud, price manipulation and insider information deals;
- The need is for an independent, honest, accessible non-political and business savvy judiciary;

The 'Justice Shares' scheme as the other part of privatization process in Iran dedicated to the cause of the poor and deprived regions of the country, proposed a different direction to accomplish the privatization task. The program encompassed the distribution of shares of all government enterprises and semi-public entities under government jurisdiction. The scheme was presented not as a replacement, but as an adjunct to privatization with a set of other complementary objectives: equitable distribution of wealth combined with steady income for the poor; propagation of the culture of stock ownership; increasing enterprise productivity; changing the public's negative view of private enterprise; and enhancement of the share of the cooperative sector in the national economy. However, the scheme has faced five major challenges to its basic design, as following:

- There have been 'strong differences of opinion' among the authorities regarding policies and actions in the implementation of Article 44; implying some resistance by the enterprises in voluntarily relinquishing their shares.
- The difficulty of identifying a reasonably accurate number of the 'poor' in all phases.
- The selection of enterprises whose shares are to be transferred. If these entities were in the red and kept alive on public subsidies, transferring their shares would be tantamount to distributing poverty, not plenty. And if they were profitable businesses, the government could lose even more budgeted revenues from their operation and face larger deficits with more dire consequences.
- Obtaining an accurate, cost-based pricing of enterprise shares has been athorny problem, given the companies' opaque accounting system, the unpublished amounts of annual state subsidies, loans received from state banks on favorable terms, unpaid taxes and other market data.
- The elaborate, complex and ill-defined administrative and bureaucratic processes involved in carrying out various phases of the scheme constitute a new daunting task for the already overwhelmed bureaucracy.
- There have been no specific sources of financing officially designated for the elaborate administrative costs of the various agencies involved.

Published information about the Justice Shares so far is sketchy, contradictory, and full of ambiguities. Then, there is no evidence for achieving the objectives of the scheme like; increasing income[6], expediting privatization, downsizing the bureaucracy, promoting stock ownership habits, and enhancing enterprise efficiency.

CONCLUSIONS AND RECOMMENDATIONS

The most impressive feature of privatization in the countries has been the speed and scale at which it has occurred. The reforming governments of the late 1980s and early 1990s managed successfully to transfer the huge state-owned sector into privatehands in a time of hardly more than a decade. Even so privatization appears to have led to improved company performance, especially when the new owners are foreign or concentrated domestic ones. Privatization has also apparently enhanced growth and provided governments with much needed revenues. Finally, while the micro-economic evidence appears to suggest that weak or perverse effects from privatization may be associated with some methods of privatization, our study demonstrates that this does not seem to have any appreciable influence on macroeconomic outcomes.

State and local policy makers and governments who are seeking to provide services effectively and in a cost-efficient manner need to consider the larger implications of privatization, and to explore alternatives. In this context, some specific suggestions are as below:

- To consider the full range of costs in their planning, including transaction costs, and to ensure budget transparency in the process;
- To ensure adequate public accountability and control in the provision of services;
- To consider the actual effectiveness of public service providers and the quality of services;
- To consider longer term economic consequences and indirect impacts, including loss of resources and expertise in the public sector, and the impacts of losing public jobs with benefits;
- To consider both the constitutional and the ethical implications of transferring responsibilities for obtaining access to services to the private sector;

6. There is no guarantee that privatized SOEs will have a double-digit return year and pay regular dividends so that the recipients can pay for their shares.

- To consider innovations in providing public services, such as using publicly owned firms, and inter-municipal partnerships;
- Market management by local government is a critical element to insure privatization success.

References

Bel G., Costas A. (2006). Do Public Sector Reforms Get Rusty? Local Privatization in Spain. *Journal of Policy Reform* 9(1): 1-24.

Bel G., Warner M. (2006). Local Privatization and Costs: A Review of Empirical Evidence. Working Paper. Universitat de Barcelona and Cornell University.

Bolton P., Dewatripont M. (2005). Contract Theory. MIT Press.

Boyne G.A. (1998a). Public Choice Theory and Local Government: A Comparative Analysis of the U.K. and the U.S.A., NY: St Martin's Press.

Boyne G.A. (1998b). Bureaucratic Theory Meets Reality: Public Choice and Service Contracting on U.S. Local Government. *Public Administration Review* 58(6): 474-84.

Buchanan J., Tullock G. (1974). The Calculus of Consent, University of Michigan Press.

Chandarasorn V. (1995). Privatization: A New Trend and a Revolution in Public Administration. *Tai Journal of Development Administration* 35(2): 195-204.

Chandarasorn V. (1993). Privatization as Related to Changes and Trends in Public Administration. The 15th General Assembly/Conference of Eastern Regional Organizations for Public Administration. Tehran, Iran, October 31-November 8.

Djankov S., Murrell P. (2002). Enterprise Restructuring in Transition: Aquantitative survey. *Journal of Economic Literature* 40: 739-792.

Dijkgraaf E., Gradus R. (2007). Collusion in the Dutch Waste Collection Market. Local Government Studies.

Domberger S., Jensen P. (1997). Contracting Out by the Public Sector: Theory, Evidence, Prospects. *Oxford Review of Economic Policy* 13(4): 67-78.

Domberger S., Rimmer S. (1994). Competitive Tendering and Contractingin the Public Sector: A Survey. *International Journal of the Economics of Business* 1(3): 439-53.

Donahue J.D. 1989. The Privatization Decision: Public Ends, Private Means. New York: Basic Books.

Economic Planning Unit (EPU). (1985). National Coastal Erosion Study: Phase1, Report Submitted by Stanley Consultants. Malaysia.

Eggers W.D. (1997). The Incredible Shrinking State. *Reason* 29(1): 35-42.

Garnaut R., *et al*. (2005). China's Ownership Transformation: Process, Outcomes, Prospects. Washington, DC: World Bank.

Gomez E.T., Jomo K.S. (1999). Malaysia's Political Economy, Politics, Patronage and Profits. Second Edition. Cambridge University Press.

Hefetz A., Warner M. (2007). Beyond the Market Vs. Planning Dichotomy: Understanding Privatization and its Reverse in U.S. Cities. Local Government Studies 33(4): 555-572.

Hirsch W. (1995). Factors Important in Local Governments' Privatization Decisions. Urban Affairs Review 31(2): 226-243.

Hodge G. (2000). Privatization. An International Review of Performance. Boulder, CO. West Views Press.

Hoang Anh L.T. (2006). Equitization Process in Vietnam the Case of Vietnam Dairy Products Joint Stock Company (VINAMILK) Posted at *https://www.researchgate.net/publication/242550731.*

International Institute of Administrative Sciences (IIAS) and Institute International Des Sciences Administrative (IISA) (2011). Bureaucracy Culture and Leadership in Indonesian E-Administration Implementation: Based on Perspective of Knowing and Learning Organization. 28th International Congress of Administrative Sciences. Bali, Nusa Dua, Indonesia.

Katz B.G., Owen J. (1997). Optimal Voucher Privatization Fund Bids When Bidding Affects Firm Performance. *Journal of Comparative Economics* Elsevier 24(1): 25-43.

Laffont J.J. and Tirole J. (1993). A Theory of Incentives in Procurement and Regulation. Cambridge (Mass.). MIT Press.

Lieberman I.W. (1993). Lehigh University Seminar on Liberalization, Integration, and Privatization. Latin America and Eastern Europe.

Ilias S. (2009). Iran's Economic Conditions: U.S. Policy Issues. Congressional Research Service.

Lowery D. (1998). Consumer Sovereignty and Quasi-Market Failure. *Journal of Public Administration Research and Theory* 8(2): 137-72.

Management and Planning Organization (MPO). (2001). Third Socio-Economic and Cultural Development Plan of the Islamic Republic of Iran. 2000-2004.

Megginson W.L., Netter J.M. (2001). From State to Market: A Survey of Empirical Studies on Privatization. *Journal of Economic Literature* 39: 321-389.

Niskanen W.A. (1971). Bureaucracy and Representative Government. Chicago, IL: Aldine.

Niroo Research Institute (2002). The Handbook of Second Seminar on Privatization Prospects in Iran.

Offe C. (1972). Tauschverhaltnis und Politische Steuerung: Zur Aktualitt des Legitimations Problems, and Demokratische Legitimation der Planung, In Strukturprobleme des Kapitalistischen Staaes, 27-64, 123-152. Frankfurt:Suhrkamp Verlag.

Plan and Budget Organization (PBO). (1996). General Policies, Strategies and Goals of the Second Five-Year Economic, Social and Cultural Development Plan of the Islamic Republic of Iran (1995-1999).

Savas E.S. (2000). Privatization and Public-Private Partnerships. New York: Chatham House.

Savas E.S. (1987). Privatization: The Key to Better Government. Chatham, NJ: Chatham House.

Scott I. (1996). Changing Concepts of Decentralization: Old Public Administration and New Public Management in the Asian Context. *Asian Journal of Public Administration* 18(1): 3-21.

Seidman H., Stanton, T.H., Woodward G.T. (1989). Government Sponsored Enterprises. Public Budgeting & Finance 9(3): 76-91.

Siami-Namini, S. (2011). The New Public Management in Iran. Published in the 2011 Proceedings of

International Conference on Public Administration (7th ICPA).

Siami-Namini, S. (2015). Adam Smith and Government Intervention in the Economy. Posted at *https://www.researchgate.net/publication/318471587_Adam_Smith_and_Government_Intervention_in_the_Economy*

Siami-Namini, S. (2017). China's Economy and the Global Financial Crisis. International Journal of Economics and Financial Issues 7(5): 259-265.

Steinfeld E.S. (1998). Forging Reform in China: The Fate of State-Owned Industry. Cambridge: Cambridge University Press.

Tiebout C.M. (1956). A Pure Theory of Local Expenditures. *Journal of Political Economy* 64(5): 416-24.

Vickers J., Yarrow G.K. (1988). Privatization: An Economic Analysis. The MIT Press.

WarnerM., BelG. (2008). Competition or Monopoly? Comparing Privatization of Local Public Services in the US and Spain. *Public Administration* 86(3): 723-735.

Warner M., Hefetz A. (2008). Managing Markets for Public Service: The Role of Mixed Public-Private Delivery of City Services. *Public Administration Review* 68(1): 155-166.

Warner M. (2008). Reversing Privatization, Rebalancing Government Reform: Markets. Deliberation and Planning. Cornell University.

Warner M.E. (2006). Market-Based Governance and the Challenge for Rural Governments: US Trends. *Social Policy and Administration* 40(6): 612-631

Warner M., Hefetz A. (2004). Pragmatism over Politics: Alternative Service Delivery in Local Government, 1992-2002. The Municipal Yearbook 2004, Washington, DC: International City County Management Association: 8-16.

Warner M., Hefetz A. (2003). Rural-Urban Differences in Privatization: Limits to the Competitive State. Environment and Planning C: *Government and Policy* 21(5): 703-718.

Warner M., Hebdon R. (2001). Local Government Restructuring: Privatization and its Alternatives. *Journal of Policy Analysis and Management* 20(2): 315-36.

Williamson O.E. 1999. Strategy Research: Governance and Competence Perspectives, Strategic *Management Journal* 20: 1087-108.

Xu C. (2008). The Institutional Foundations of China's Reform and Development. Posted at *http://policydialogue.org/files/events/Xu_institutional_foundations_china_reforms_dev.pdf*

How to cite this article:

Sima Siami-Namini (2017) 'Reverse Privatization And New Government Reforms: A Review of Theory And Evidence', *International Journal of Current Advanced Research,* 06(10), pp. 6846-6856.

DOI: http://dx.doi.org/10.24327/ijcar.2017.6856.1027

****