

V. V. Ramanadham (ed) *Privatization in Developing Countries*. London: Routledge. 1989. Price: £ 40.00 (Hardbound Edition).

The post-World War II era has witnessed the establishment of public enterprises in many of the developing as well as developed countries. Primarily, there were the economic and social objectives behind the establishment of such enterprises. It was felt, particularly in the developing countries, that through the medium of public enterprises it was possible to control the "commanding heights" of the economy, such as heavy industry (iron and steel, power, fuels, etc.). It was perceived that such public control over the directly productive resources in the economy would lead to faster development. Socially, such enterprises were also expected to provide greater employment opportunities and thereby help in reducing the level of poverty in the developing countries.

Some forty years on, it has become apparent that public enterprises, far from promoting development, were actually acting as a brake on it. One general criticism, among many others, levelled at such enterprises included the charge of economic inefficiency. Thus, to overcome this criticism, a new term, 'privatization' was coined in the early Eighties. The term may be defined in a broad sense as the transforming of the ownership of assets from public or government control to private hands.

The objectives of privatization, which appear in the literature on the subject, may broadly be classified into six categories: (1) improving the economic performance of public enterprises; (2) depoliticising economic decisions; (3) curbing the power of public sector unions; (4) generating public revenues; (5) reducing public sector borrowing requirements; and (6) encouraging the development of capitalism through broadening the base of the ownership of assets. These objectives can be achieved through changes in ownership, changes in organizational measures, and changes in the operational environment. With this brief introduction on 'privatization' one can turn to the book under review.

The book consists of papers read at the international workshop on privatization which had been held with the support of the United Nations Development Programme at Templeton College, Oxford in May, 1988. The book can be conveniently divided into two parts: Part I has a largely theoretical thrust to it, and also includes a chapter on the British experience of privatization. Part II of the book consists of case studies of fourteen countries as they undertook various measures aimed at privatizing their economies. These fourteen countries include Pakistan, India, Sri Lanka, Malaysia, Jordan, China, Kenya, Nigeria, Ghana, Ethiopia, Malawi, Uganda, Peru, Jamaica, and Trinidad and Tobago.

As mentioned earlier, Chapters 2 to 6, which form Part I of the book, are theoretical in content, presenting a comprehensive view of the privatization process. In particular, the economic aspects of privatization are discussed in detail. These

examine the expected gains from privatization, in particular the generation of economic surpluses by the public enterprises sector. Thus, much of the discussion is related to how to improve the performance of public enterprise. Various modalities are suggested, which includes bringing about changes in ownership, organizational structure, and operational measures. The chapters also highlight both the necessary and sufficient conditions that would make privatization successful. Part II of the book discusses fourteen case studies.

The chapter on Pakistan is quite detailed and has also come at an opportune time as the country is to undertake its first major step towards privatization. The chapter gives a brief history of the privatization process in the country. It is interesting to note that Pakistan has a history of privatizing industry, particularly in manufacturing. Early examples of disinvestment are units that had been established by the Pakistan Industrial Development Corporation (PIDC) which had been disposed of in the 1960s. These were not loss-making units for the idea was to help encourage the private sector to develop the industrial base. Then, during Gen. Zia ul Haq's regime, rice-husking units, flour mills, and cotton ginning units nationalized a year earlier were denationalized in 1977-78.

The chapter enumerates eight major issues that have caused the strategy of development to shift from a heavy reliance on the public sector to that of the private sector. The issues are as follows: (1) The increasing losses of public enterprises which act as a brake on development by not generating the surpluses required for reinvestment. (2) Bureaucratic control encourages corruption. Privatization, which implies deregulation and decentralization, would do away with bureaucratic control. (3) Better management is also possible in a privatized atmosphere as it improves the overall performance of the public enterprise. (4) A major objective of the Sixth Five-Year Plan (1983-88) was the development of selected industries which are most suited to the Pakistani environment. To establish and set up such industries the private sector is expected to play a major role, and if this is to happen, the government has to provide the infrastructure required for such development. (5) At the barest minimum, the prerequisite for a sustained growth effort is the availability of additional investment resources. Given the tight financial position of the government, a way to raise additional finances is to sell off public enterprises. (6) Emphasis is also being placed on profitable projects which do not take long to mature. Such projects can add to the surplus generated, which can be reinvested elsewhere in the economy. (7) To raise savings rates, which are quite low in Pakistan, one way to raise the level of these rates is encouragement of private investment. (8) The last issue is that of increased efficiency in the production and consumption of goods and services, which, according to conventional wisdom, can only be brought about through a decentralized system based on the market mechanism. Hence, the move towards greater privatization.

But for privatization to be successful in Pakistan, the modalities have to be clearly worked out. Recently, it has been announced that the shares of three public sector corporations, the Pakistan International Airlines, The Muslim Commercial Bank, and Pak-Saudi Fertilizers, are to be offered to private subscribers. If privatization is to prove successful, then it is important that the face value of the shares be kept low so that the largest possible number of people can purchase them, thus meeting one of the objectives of privatization by fostering popular capitalism and paying regular dividends to the shareholders. In Pakistan, this is not the case. Dividend payments are not regular. Of the 400 companies in the private sector listed on the Karachi Stock Exchange, one-third do not pay any dividends; another one-third pay only nominal dividends below the bank rate; and some 50 companies have not even bothered to hold their annual general meetings for quite some time.<sup>1</sup> Given this state of affairs in the private sector, the scope for privatization in Pakistan appears to be quite limited. Not only is the private sector tardy in the payment of dividends, another prerequisite for successful privatization, namely, a well-developed capital market, is missing in Pakistan.

Another pertinent issue is: what will the government do with the sale proceeds from privatization? Will they be used to finance current non-development expenditures, or to bring about a reduction in taxation, or to augment capital expenditures, or to reduce the public debt? The first two options appear politically attractive but do not really add to the economic strength of an economy, whereas the latter two options, if followed, could strengthen the economy.

A more realistic approach, if one expects the public enterprises to perform effectively, is to improve their management – both at the senior level as well as at the middle level. Good management, as well as less political interference, would lead to public enterprises becoming more profitable. Thus, the issue to privatize or not may not arise.

The book under review is well-written and deals with the concepts and issues of privatization in a concise manner and compares well with other recent publications books on the same subject [Hanke (1987); *World Development* (1989)]. The World Bank, too, has recently brought out material on privatization. However, a major virtue of this book is the number of case studies presented in Part II. A perusal of these case studies shows that not only do country experiences in privatization differ, but also the reasons for undertaking privatization are different. Thus, to generalize would be dangerous. However, the empirical content found in the case studies could provide scholars with additional material for further research in this rather topical subject. Finally, perhaps a paper could have been included at the

<sup>1</sup>Sultan Ahmed, Real Privatization Will Come with a Change in Management. *Dawn/Economic and Business Review*. April 7–13, 1990, p. 5.

seminar on the political economy of privatization, which would have made the book even more interesting to read.

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### **REFERENCES**

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