Privatization: A Transitional Analysis using Property Rights Theory and Political Market Theory*

Jina Kang
Assistant Professor
Department of Management
California State University, Fullerton
(*jkang@fullerton.edu*)

This study is designed to test property rights theory and political market theory in their predictions of the forces that initiate and influence efficiency improvement of SOEs undergoing privatization. The basic tenet of this paper states that although static in their nature, property rights theory and political market theory imply different time point at which efficiency improvement takes place in a privatized SOE. Concerned mainly with the absence of takeover market under state ownership, the property rights theory predicts that efficiency improvement will take place only *after* privatization has been completed. On the other hand, political market theory predicts the improvement takes place *before* privatization when the relative weighting on economic goals increases significantly inside the firm and managers begin to participate in the human capital market. This note concludes by examining value-added, the preferred measure of efficiency by many, and calls for an empirical analysis to test these hypotheses which may help academics and governments in further understand efficient implementations of privatization schemes.

Key words & Classification System: Privatization (L33), property rights theory, political market theory, efficiency

Ⅰ. Introduction

A global wave of privatization was started in the 1980s and has remained a top policy issue in Europe and Asia. While there is general agreement that efficiency improves with private ownership (see Boardman & Vining, 1989 for an extensive review), we have limited understanding of the sources of efficiency improvement during privatization and of why and when the pace of progress varies (Ehrlich et. al., 1994). Specifically this paper suggests hypotheses of property rights theory and political market theory and asks which one predicts better the forces that initiate and influence the efficiency improvement in privatizing SOEs

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(state-owned enterprises), during this period of transition from state-guided firm to market-governed firm. Is it economic force in the form of takeover threats? Or political initiative that changes firm objective from political to economical?

Theoretically, two predictions are possible. Property rights theory and political market theory, the two streams of literature on privatization, both predict an increase in efficiency when a firm is privatized; however, both imply different points in time for the improvement to occur. Since property rights theory is concerned with the absence of a takeover market under state ownership, the theory implies an increasing efficiency starting from the day one after privatization. In the political theory of government ownership, managers are held accountable more for political objectives than for profit maximization, hence the inferior level of efficiency at SOEs. However, when a government decides to privatize, goals for the SOE shift from political to economic in order to fetch a higher price for the company at the time of privatization. This implies an increase in efficiency in privatizing SOEs will come before the privatization date.

This paper presents the two opposing hypotheses derived from property rights theory and political theory of government ownership. According to the former, efficiency improvement will come *after* privatization, and according to the latter, the decision to privatize will bring an efficiency improvement *before* privatization.

There is surprisingly little theoretical or quantitative work done on the transition period of privatization process and its consequence on efficiency. Most published work on state ownership has focused on static differences in efficiency levels among cross-sectional data (see meta-analysis of Boardman and Vining, 1989).[1] Megginson et. al. (1994), Ehrlich et. al. (1994), and Galal et. al. (1992) dealt with panel data but are limited to empirical research and offer no theoretical explanation for their findings. Also, they find conflicting results. For example, Martin and Parker (1995) find that most efficiency improvements came before privatization among the eleven British privatization cases in their sample which they call a shake-out effect. Megginson et. al. (1994) find that efficiency improvements came after privatization.

Resolution of the debate about why and when privatization 'works' is interesting for at least three reasons. First, a theoretical analysis will highlight the difference between property rights and political theories of the relationship between the transition of owner-

1) For more detailed description of cross-sectional and panel studies, see appendix.

ship and efficiency improvement. The two theories are basically static in nature. In a dynamic setting, their explanations lead to inconsistent predictions which this paper hopes to unravel. Second, evidence of either theory may help build better incentives for managerial efficiency that may not necessitate a major ownership change such as privatization. If a real threat of privatization is enough to improve efficiency, then clarification of objectives in economic efficiency and managerial labor market may be sufficient enough bring about the desired change among SOEs.[2] Third, understanding how and why privatization works would help to design better privatization programs. There are many more governments opening up their SOEs for privatization, and more research in this area will help improve the effectiveness of their programs.

In the second section, two streams of theories in privatization literature are discussed in more detail in their implications for the timing of efficiency. Ensuing sections discuss past research in privatization and different concepts of efficiency used in privatization literature and a recommendation of value-added as the efficiency measure of choice for a test of these hypotheses. The last section discusses managerial and policy perspectives and concludes with a call for empirical research in this matter.

II. Theory

There are two main streams of theories in the privatization literature: 1) *Property rights theory* stresses the importance of ownership characteristics and relationships to factor markets, and argues that private enterprise must be inherently more efficient than government enterprise; and 2) *Political (market) theory of government ownership* looks at SOEs as a government entity whose decisions and policies are externally controlled by the governments who use these SOEs as political tools to achieve their own objectives. Both imply an inferior efficiency for SOEs, but because of the different theoretical emphasis, the implications for efficiency during transition differ. These implications are explained below.

2.1 Predictions from the two theories

The property rights approach focuses on the different attributes of ownership and the influence of the capital market, or

2) There have already been some case studies of SOEs that are as efficient or better than their privately-owned counterparts. See Hayes and Cho (1992) and Lieberman and Kang (1997).

absence thereof, for managerial behavior (Alchian, 1961; Alchian & Demsetz, 1972; Jensen & Meckling, 1976). Further developed by De Alessi (1980) and Borcherding (1983) in the state/private ownership context, this approach purports that the key difference between state and private firms is the nontransferability of ownership in state-owned firms. Moreover, the taxpayer-owners of a state firm possess no direct supervisory power over its managers, and any influence they exert must come through the intermediation of politicians who may have their own interests in the SOEs' policies. Given higher monitoring and policing costs and the smaller benefits accruing from ownership, individual citizens would be likely to assume a passive role. Thus the attenuation of property rights would lead to SOEs that are characterized by poorer efficiency and lower profits than for private firms.

Political market theory emphasizes the dynamics of political systems and external control as key determinants of the behavior of state companies and other government agencies (Downs, 1957; Buchanan & Tullock, 1962; Olson, 1965; Posner, 1971; Stigler, 1971). Since SOEs are established and owned by the state, citizens and politicians will attempt to influence their policies via the political process. This may be contrasted with private sector firms which are less vulnerable to political input into management decisions. State enterprises do not exist solely to maximize profits (Aharoni, 1981) and sometimes have multiple objectives reflecting the conflicting public needs and political pressures. This may lead to inefficiency of managers and excess employment above the optimal level. Boycko, Shleifer and Vishny (1996) show a model where employment returns to an optimal level once privatization takes place and government is no longer able to 'bribe' managers with soft budget constraints to maintain an inefficient level of employment. The political market theory describes SOE managers who are forced to make sub-optimal decisions because of their firms' political constraints.

While different in approaches to the determinants of state ownership, both of these views agree that from an economic perspective, state ownership will be less efficient than private ownership. Following presents the first hypothesis for a cross-sectional data in order to set a baseline for the efficiency level:

H1: If property rights theory and political market theory are true, then SOEs will have a lower level of efficiency than privately-held companies *ceteris paribus*.

The two theories also agree on the general improvement in efficiency when a SOE is

privatized. However, each implies a different timing for the predicted improvement to take place. Property rights theory, apart from owners' lack of incentive in conducting active monitoring, is primarily concerned with the absence of a takeover market under state ownership; thus efficiency improvement will be possible only after privatization has been completed and the firm placed firmly in the capital market where monitoring is made easier and takeover risks real.[3] Thus, property rights theory implies an increasing efficiency starting after privatization.[4] On the other hand, the political theory of government ownership traces the inefficiency at SOEs to their obligation to pursue politically motivated goals (Aharoni, 1981). Apart from inefficiency, these diverse and often unclear objectives have further damage in the sense that the different goals from the rest of the market creates confusion for the managerial labor market and renders *ex post* settling up difficult (Fama, 1980). However, when a government decides to privatize, goals for the SOE shift from political to mostly economic in order to increase its value at the time of privatization, since an important motive for privatization is the government's need to raise revenue or reduce expenditure (Yarrow, 1986).[5] This objective of revenue-generation by privatization is not a new concept. Two centuries ago Adam Smith (1776) argued that:

> 'In every great monarchy in Europe the sale of the crown[6] lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown...when the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated.'

Thus when the SOE's relative weighting on economic goals increases significantly and

3) This prediction will, of course, comes about to the extent which capital markets will be brought to bear immediately. There are often many restrictions on capital markets, which impede the impact and speed of any outside forces. Such inefficiency will only aggravate the speed of which the efficiency of privatized SOEs will catch up with the rest of the market.

4) One might argue that the threat of privatization may be enough and catapult SOEs into efficiency, but according to property rights theory, whatever improvement before privatization would be insignificant (Demsetz, 1997).

5) This is somewhat in contrast to the standard ownership change literature for private firms, where ownership change is a mechanism for correcting lapses of efficiency. Most acquisition are precipitated by a deterioration in the target firm's performance (Manne, 1965; Jensen, 1988). Herein lies the difference in ownership change between privatization and private acquisitions.

6) 'Crown' refers to state-owned. This terminology is still in used in Commonwealth countries like Canada, where they call SOEs crown corporations.

the governments announce[7] their intentions to privatize an SOE, the managerial labor market will be able to evaluate managerial performance on economic efficiency. This gives SOE managers enough incentives to perform well to set up their reputation in the managerial labor market (Fama, 1980), in which they did not have an opportunity to participate before. Thus if the political market theory model is correct, then the switch from political goals to profit maximization will lead to an increase in efficiency in a privatized SOE preceding the privatization date.[8] Thus from the above discussion, opposing hypotheses can be set up to compare the two theories:

H2a: If property rights theory is true, then privatized firms will show an increasing rate of efficiency starting *after* privatization.

H2b: If political market theory of government ownership is true, then privatized firms will show an increasing rate of efficiency *before* privatization.

2.2 Past empirical research on privatization process

Empirical research on privatization process are inconclusive at best. Hartley et. al. (1991) showed that privatization did not necessarily guarantee an improved performance. Starr (1990) argued against privatization, stating 'contrary evidence from other studies shows no difference in costs or even higher costs among commercial providers' (page 114) and citing four studies that are skeptical to the efficiency advantage offered by private enterprise. Haskel and Szymanski's (1993) study found that privatization *per se* did not raise productivity and that competition is more important than ownership. Their study was done on twelve public sector organizations over the period 1972-1988; however, only four of their sample were actually privatized. There are contrasting studies as well: Bishop and Thompson (1992) compared the performance in the 1970s with that in the 1980s for nine enterprises which were either privatized or remained in the public sector and found that 'in aggregate, both labor productivity and total factor productivity have shown significantly faster growth during the 1980s than in the 1970s' (page 1181). However, because of the time periods chosen, it is difficult to identify the precise effect of privatization.

Only a handful of empirical studies have

7) Announcements and their impact on the SOEs have been differentiated in some papers (Martin and Parker, 1995 for example) and dealt with extensively. However, due to a lack of information on such data and the primarily theoretical standpoint involving the privatization date, this paper does not differentiate between the time of decision to privatize and its announcement.

8) Governments usually make their intentions to privatize a firm a few years (or decades) before the actual date, which gives the SOE managers some years to build their reputation in the managerial labor market.

focused on the actual process of privatization and the changes in efficiency thereof (Vickers & Yarrow, 1988; Galal et. al., 1992; Megginson et. al., 1994; Ehrlich et.al., 1994; Martin & Parker, 1995, 1997; Ramamurti, 1996). Boardman and Vining (1989) analyzes the relative performance of the 500 largest non-US mining and manufacturing companies in 1983 to determine whether privately owned firms outperform state-owned and mixed state and privately-owned companies (called mixed enterprises, MEs). After controlling form the regulatory/competitive environment in which each firm operates, they present very strong evidence that private corporations are both more profitable and more efficient (measured as sales per employee and per asset) than either SOEs or MEs. Another interesting result that they present is the finding that SOEs and MEs perform equally poorly, suggesting that merely having publicly traded stock is not enough to make a state-controlled firm operate efficiently. Instead, the company must be controlled by private investors.

A most thorough empirical analysis of privatization itself is the World Bank study by Galal, Jones, Tandon, and Vogelsang (1992). They analyze the post-privatization performance of twelve companies (most airlines and regulated utilities) in Britain, Chile, Malaysia, and Mexico to determine whether the transfer to private ownership increased efficiency - and if so, how the costs and benefits of adjustment were allocated. The most important aspect of this study is the great care with which the authors try to isolate the effect of just the privatization itself. They compare the actual performance of the divested firm to what it could have been predicted to be if it had remained in state hands. The authors document net welfare gains in eleven of the twelve cases and on average, the present value of these gains equals 26 percent of the firm's pre-divestiture sales revenue. Furthermore, they document no case where workers as a class were made worse off and three cases where workers were made significantly better off. Also, this World Bank study examines only a small number of mostly regulated firms from four countries.

Megginson et. al. (1994) is one of the few studies that actually looked at the process of privatization and the efficiency thereof. They compare the pre- and post-privatization financial and operating performance of 61 companies from 18 countries and 32 industries from 1961 and 1990 and find strong performance improvements without sacrificing employment security. This improvement comes *after* privatization is final through public share offerings. However, Martin and Parker (1995) find a sudden surge in productivity growth after the

announcement of privatization which feel behind the rest of the economy *after* privatization. They suggest that the ownership effect prompted a once-and-for-all shake-out rather than a persistently higher level of growth. There are limitations to their research since their data encompass eleven companies all from different industries from Britain in the 1980s. Their study is more of case studies than statistical significant findings.

Other recent papers on privatization include Hutchinson (1991), Jones, Tandon, and Vogelsang (1991),[9] and Harrell and Sohl (1993). A problem common to most empirical studies, such as those cited above and others by Yarrow (1986) and Caves (1990), is that they examine only a small number of companies from a single country (usually Britain) and generally lack statistical significance.[10] There are evidence favoring privatization's role in promoting economic efficiency (Bailey, 1986; Bishop & Kay, 1989; and Pryke, 1982) and equally abundant research voicing the exact opposite view (Hartley et. al., 1991; Kay & Thompson, 1986; Wortzel & Wortzel, 1989). Moore (1992) argues that the act of privatization itself promotes both economic efficiency and public confidence in the system of industrial capitalism, and thus state-owned enterprises must be sold off before efficiency gains can be realized.[11] Very little information is known about the direction of efficiency change during privatization.

2.3 Past cross-sectional research on ownership

In their reviews of the ownership literature, De Alessi (1980) and Borcherding (1983) have adduced support for the property rights theory from the available empirical evidence. However from a methodological perspective many of these illustrations do not provide clear tests of its central hypotheses, and the more sophisticated studies of productivity and cost efficiency are, the more they suggest that state and private firms have comparable performance levels when examined on an industry-by-industry basis (Borins & Boothman, 1985). Much of the research cited consists of comparisons of private sector firms that are subject to the pressures of market competition with government departments which have legally sanctioned monopolies. Most of these studies deal with public services, such as firefighting (Ahlbrandt, 1973), garbage

9) This is basically a first version of Galal, Jones, Tandon and Vogelsang (1992).
10) Exceptions would be the aforementioned Boardman and Vining (1989) and the World Bank study by Galal, Jones, Tandon, and Vogelsang (1992).
11) Many do question the author's possible bias towards privatization, since Moore was one of the cabinet members implementing privatization in Britain.

collection (Savas, 1977a, 1977b, 1980; Pomerehne & Frey, 1977; Kitchen, 1976; Kemper & Quigley, 1976), and processing of medical insurance data (Frech, 1976, 1980). Most of these studies find that the private sector does these jobs with substantially lower costs than government bureaus. Unfortunately, these studies do not differentiate the effects of market structure from the effects of ownership.[12] However, there is a body of theoretical and empirical evidence which suggests that the market for corporate control is likely to be a relatively weak deterrent against inefficiency, particularly in large firms (Grossman & Hart, 1980; Cosh et. al., 1989; Ravenscraft & Scherer, 1989).

Most of the empirical work developed by proponents of political market theory related to direct regulation and many of the hypotheses about SOEs are based upon casual empiricism. Aylen (1988) observed that the British government for a long time refused to close grossly inefficient coal mines to preserve mining jobs. Peltzman (1981), Pashigian (1976), and Cooter and Topakian (1980) infer directional support for the theory's propositions from their examinations of public enterprise in the United States, but they have not demonstrated a direct relationship between patterns of electoral activity and the distribution of costs and benefits among consumer groups. Most of the results generated by these studies have not been statistically significant and the sensitivity of the cost and price data often leaves the outcomes open to alternate explanations.

The most comprehensive studies done on the autonomy strategies of the managerial research has been based on US or European firms. Walsh (1978) documented how US state corporations have attempted to construct alliances with client groups to ensure successful operations and managerial discretion. Burns (1977) outlined how the British Broadcasting Corporations used a tradition of non-partisan professionalism to buffer itself against political interference. Mazzolini (1979) examined the foreign investment decisions of 123 European state companies and found that they were often undertaken as a means of protecting the autonomy and economic viability of the enterprises. He concluded that the major determinant of the success of these efforts was the relative power or influence of key individuals in the relevant firms or governments.

12) A pure test of ownership should take place in an industry where state corporations and private firms operate in similar market conditions (Borins & Boothman, 1985). In order to satisfy this condition this study limits its data set to steel firms with integrated mills,.

2.4 Korean Experience in Privatization

One of the poster child examples of privatization, not only in Korea but also in the world of privatization is the thriving of Pohang Iron and Steel Corporation (now officially known as POSCO), before and after its privatization. POSCO is a Korean company founded in 1968. POSCO's outstanding record of productivity growth has made it the world's largest steelmaker, and arguably the most efficient (Lieberman & Kang, 1997). High productivity has also led to robust profitability; among the world's major metals producers in 1996, POSCO ranked number one in return on revenues and assets.[13)]

So arguably, murmurs of concern went over industry watchers and pundits when plans for privatization were announced. This is because despite the general predicted increase in performance after privatization, transitional problems that inevitably rise out of uncertainty and unpredictability mean a significant dip in efficiency and performance. However POSCO clean-swept all of the dire predictions when it showed strong, if not better performance after the privatization process without missing a beat.

Of course some pundits are quick to discount the example of POSCO as an extraordinary exception rather than the rule, but leadership alone offers a scanty explanation for its exceptional performance amongst more experienced world-class companies that POSCO was up against as a nascent and later on, as a more mature company.

POSCO's performance may seem much like a lucky exception to the rule, especially when contracted in stark reality to other privatization ventures that proved to be near-dismal. Britain's huge project to privatize most of its sovereign companies came at an inopportune time and with inadequate time for planning. In Africa's case, privatization throughout the continent had been slow, with few visible results and a general feeling among observers and donors that African governments' commitment to the process was generally half-hearted.

III. Different Concepts of Efficiency

The concept of efficiency is ubiquitous in the privatization literature. Since efficiency is the focal point in much of the economics literature written on privatization including this one, a brief discussion of efficiency is in order. There are (at least) four efficiency

13) Fortune, August 4, 1997, page F-23.

concepts used in economics that can be related to the discussion of ownership and privatization; 1) productive (also known as technological or technical) efficiency, 2) allocative efficency, 3) economic efficiency, and 4) consumer efficiency (Walker & Vasconcellos, 1997). First, an enterprise is said to achieve *productive* efficiency when no more output can be produced without more input, i.e., if productive efficiency is being achieved, there is no waste. Brada and King (1993) state that 'units whose production is technically efficiency produce on the frontier of the production function' (page 4). Second, *allocative* efficiency is maximization of consumer and producer surplus. The necessary conditions for allocative efficiency are economic efficiency, consumer efficiency, and equality of marginal social cost and marginal social benefit (Parkin, 1990). Thirdly, *economic* efficiency is achieved when a certain output is produced at minimum cost. A necessary condition for achieving this is the equality of the ratios of marginal product to price, for all factors of production. While is it necessary to be technologically efficient to achieve economic efficiency, technological efficiency is not sufficient for economic efficiency. Also, a long-term strategy is needed to achieve economic efficiency since investment into new technologies must be made. Fourth, *consumer* efficiency refers to consumer (as opposed to producer) behavior and is achieved when consumers' overall level of satisfaction is maximized, given their fixed levels of income. To maximize satisfaction, each consumer must equate the marginal utility per dollar spent on each good and service consumed.

The debate over efficiency between state-owned or privately-owned enterprise can be viewed from any one of these efficiency perspectives. However, the literature in this area generally refers to productive efficiency.[14]

3.1 Usage of Value-added as a Measure of Efficiency

Amongst many measures of efficiency, value-added and efficiency growth by the growth rate of value-added remain by far the preferred measurement of efficiency in this line of literature. Borins and Boothman (1985) draw the conclusion that value-added is the only meaningful measurement of efficiency when compared to other gauges such as costs and profitability. Surely, each and every type of efficiency measure entails significant problems or has serious limitations

14) An exception to this would be Galad et. al.'s cost-benefit analysis of SOE sales, which is described in more detail in the privatization section.

in explanatory power, but profitability, a much-used alternative, is deemed "the least satisfactory form of measurement because it encompasses any and all determinants of efficiency, and simply may not be in accord with the designated social role of a public enterprise" (pp 104). After all, it is suspected that state corporations are required to fulfill certain social objectives in addition to their economic goals and often are expected to operate on a near-breakeven basis (Aharoni, 1981). Assessments of efficiency based on profitability may use inappropriate measures and be very misleading about causality between the two (Borins & Boothman, 1985). Besides, accounting rules are almost all the time changed in cases of privatization, thus offering little information (Dyck, 1997; Martin & Parker, 1995). Among different measures of productivity, value-added is deemed as one of the most reasonable measurements because "almost everyone would prefer a company to produce more output for a given level of input" (Megginson et. al., 1994, pp 434).

Value-added is defined as the difference between the firm's total sales and its material costs and contracted services and is a preferred measure (see Solow, 1957; Denison, 1967; Dollar & Sokoloff, 1990). It captures the 'value-added' by the firm during each fiscal year, through the efforts of its employees and the application of its capital, in adding value to raw materials, such as iron ore, scrap, limestone, coal, and other energy inputs (Lieberman & Johnson, 1995). Nominal value-added is then deflated by an appropriate price index to obtain a real figure for value-added (Bryant, 1989).[15] In the first model, the dependent variable is the average annual rate of *change* in value-added. The use of the logarithmic rate of change in value-added will reduce the need for control over net productivity growth, capital (although growth in capital is tested as a control variable; see below), and technology inputs needed to remain unchanged throughout the sample period (Martin & Parker, 1995).

IV. Discussion

This research note is a discussion on both property rights theory and political market theory during the privatization process and attempts to find what theory better predicts

15) Real value-added is usually calculated as a fraction of (wages + depreciation + profit before interest and tax) over (an appropriate price index). The division of value-added by the number of employee-hours yields a net measure of labor productivity. Thus on the basis of this measure, labor-intensive industries will have lower productivity levels than capital-intensive industries.

the force that initiates and influences efficiency improvement of SOEs undergoing privatization.

This study asks many questions, such as does switching from political to economic goals increase efficiency even before privatization? Can governments increase efficiency in their SOEs by implementing clear economic objectives instead of political goals without having to go through a major restructuring like privatization? These clearly defined objectives will allow their managers to participate in the managerial labor market which creates an incentive for them to be more efficient. This calls for an extensive empirical test on the aforementioned hypotheses to find answers to these questions. Depending on the result, it may afford us with many implications. For example, if the results hold stronger for the political market theory, then it may mean for a SOE to be efficient, governments should curtail any political objectives for the firm and let the SOE behave as if it were privately-owned.

However, research shows that privatization is not a solution for all state-owned companies or their governments. It is true that privatization generally improve fiscal and macroeconomic indicators significantly (Barnett, 2000). One of the privatization proponents' claims is that privatization is correlated with an increase in the employment rate, both in the short and the long run. However, recent empirical research shows that this may not always necessarily be true (Barnett, 2000). Tansel (1998) examines the losses of workers made redundant due to the privatization of seven cement plants and two petrochemical complexes in Turkey, and argues that all groups of workers suffered substantial average earning losses. Campa's 1997 paper describes and evaluates reallocation schemes for workers displaced due to privatization in Spain in the 1980s. It argues that these schemes were, to a large extent, ineffective in finding new jobs for these workers. His paper offers some reasons why this misallocation ensued. First, these schemes aimed to improve workers' current skills rather than teach them new skills. Secondly, high levels of compensation reduced workers' incentive to find new jobs. Thirdly, the requirement that employers hire workers on full-time contracts of indefinite duration made these workers unattractive. There are ways to make these employee displacements less severe and painful for the people involved and the governments to whom their votes matter. One of those may be ample time for transition and revised training as well as increasing attractive employment opportunities elsewhere for the would-be-displaced workers. Nobel-laureate Joseph Stiglitz has thus long campaigned for a slower and more deliberate privatization.

The vast diversity and unevenness of empirical studies do not add certainty to the results of privatization. For example, much cited study, Megginson and Netter (2001), only adds fuel to the ongoing debate. They reviewed 61 empirical studies of the effects of privatization and conclude that privately-owned firms outperform state-owned enterprises; that privatization improves firm performance, regardless of the geographic setting; that governments generate significant resources from privatization, and that privatization generally contributes to the development of local stock exchanges and capital markets, and benefits investors who purchase shares in privatized firms.

While most technical assessments classify privatization as a success, it remains widely and increasingly unpopular, largely because of the perception that it is fundamentally unfair, both in conception and execution. A paper by Birdsall and Nellis (2002) reviews the increasing (but still uneven) literature and conclude that most privatization programs appear to have worsened the distribution of assets and income, at least in the short run. This is more evident in transition economies than in Latin America, and less clear for utilities such as electricity and telecommunications, where the poor have tended to benefit from much greater access, than for banks, oil companies, and other natural resource producers.

Equally strong counter-examples can be found: An empirical study by Djankov and Murrell evaluates the performance of privatized enterprises in post-communist states and concludes that (1) they perform better as measured by the amount of restructuring undertaken; (2) in most countries, this is true for any and all forms of privately owned firms;(3) even in those cases where the differences in restructuring between privatized and state-owned firms are slight, they are nonetheless almost always positive, and (4) there is little evidence that privatization has harmed firm performance, even in Russia and the other countries in the Commonwealth of Independent States. These studies all remind us that the attractiveness of privatization depends largely on many factors, including the contextual history of the company and the government involved.

The attractiveness of privatization as well as its mode of privatization also depends on the growth stage of the country involved. In developing countries, privatization usually means selling state-owned enterprises to private investors. However, in recent years, many diverse forms of privatization are being sought out to maximize efficiency and performance for the governments, and minimize any large-scale displacement or changes on a societal level. In 2002, the World Bank remarked that another option for privatization is where a government agency or

state-owned enterprise contracts out some of its activities or functions to private firms rather than resorting to full-blown privatization schemes. For example, the state transportation agency could contract out road maintenance to private firms rather than having the work done by government employees. If a transparent and competitive process is used to hire the private contractor, the most efficient and least cost firm is likely to be selected and result in cost savings for the government. This option is preferred by more mature economies such as the United States where there is less uncertainty in drawing out a workable contract with larger pool of eligible firms to choose from.

Also, the exact motive for privatization must be carefully examined and mulled over by governments involved. It is true that sometimes governments have no recourse but to resort to external pressures and circumstances, such was the case in some privatizations in Africa. Although reduction of fiscal deficits is commonly cited as the main objective for the adoption of privatization in Africa, recent studies from the World Bank (for example White & Bhatia, 2002) indicate that the choices of enterprises for privatization suggests that the primary motivations for privatization have been the need for the World Bank, International Monetary Fund, and donor financial support and the need to generate proceeds and divest some trouble state-owned enterprises while minimizing political fallout.

It is in this context that this paper was explored, into the realms of privatization. It is the author's hope that this note succeeds in calling for further research to clarify the issues and results of privatization which has become a worldwide trend in the past decades.

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사기업화: 재산권론과 정치시장론을 통한 과도기적 분석

강진아

요 약

이 연구는 공기업의 사기업화가 초래할 수 있는 효율 향상에 대한 재산권론과 정치시장론의 잠재적인 영향력을 평가하기 위해 고안되었다. 이 논문은 비록 각기 정적인 개념으로 인식되지만 재산권론과 정치시장론에 의하면 공기업의 사기업화로 인한 효율의 개선은 발생시기가 각기 다를 수 있다는 가정을 바탕으로 한다. 사기업은 공기업이었을 때의 시장 장악력을 상실하기 때문에 재산권론에 의하면 효율 향상은 단지 사기업화가 완전히 종결되었을 경우에만 이루어질 수 있다. 이에 반해서, 정치시장론에 의하면 효율 향상이 사기업화가 되기 전에도 이루어 질 수 있는데, 그것은 경제 목표에 대한 상대적인 비중이 기업내에서 현저하게 증가함과 동시에 경영인들이 인적 자본 시장에 본격적으로 참여를 했을 경우에만 가능하다. 결론적으로 이 논문은 많은 사람들이 인정하는 효율의 척도, 즉 기업 가치 증가에 대한 관점을 제시함과 동시에, 학계와 정부가 효과적인 사기업화의 방법론을 심도있게 이해하는 데 도움이 되는 가설에 대한 실험적 분석의 필요성을 강조하고 있다.