Promoting privatization

By Jomo Kwame Sundaram
March 15, 2019 – *IDEAS*

Privatization has been central to the 'neo-liberal' counter-revolution from the 1970s against government economic interventions associated with Roosevelt and Keynes as well as post-colonial state-led economic development.

Many developing countries were forced to accept privatization policies as a condition for credit or loan support from the World Bank and other international financial institutions, especially after the fiscal and debt crises of the early 1980s. Other countries voluntarily embraced privatization, often on the pretext of fiscal and debt constraints, in their efforts to mimic new Anglo-American criteria of economic progress.

Demonizing SOEs

Globally, inflation was attributed to excessive government intervention, public sector expansion and state-owned enterprise (SOE) inefficiency. It was claimed, with uneven and dubious evidence, that SOEs were inherently likely to be inefficient, corrupt, subject to abuse, and so on.

In the 1970s, the motives of many involved in the preceding public sector expansion – enabled by high commodity prices and earnings as well as low real interest rates due to easy credit, with the need to 'recycle petro-dollars' (invest revenues from petroleum exports) – were developmental and noble.

Regardless of their original rationale or intent, many SOEs become problematic and often inefficient. Yet, privatization is not, and has never been a universal panacea for the myriad problems faced by SOEs.

Only more pragmatic and appropriate approaches — recognizing their origins, roles, functioning, impacts and problems — can realistically expect to address and overcome the burdens they have come to impose on many developing economies.

Various meanings

Privatization usually refers to a change of ownership from public to private hands. Over recent decades, the term has been used more loosely. For example, it may only involve minority private ownership after the corporatization of an SOE, and the sale of a minority share of its stock, or even a majority share with control remaining in state hands by various means such as the use of a 'golden share'.

It sometimes also refers to contracting out services previously undertaken solely by the government. The definition may include cases where private enterprises are awarded licenses to participate in activities previously reserved for the public sector.

Strictly speaking, however, privatization involves the transfer of at least a majority share of and a controlling interest in a public enterprise or SOE and its assets, or an entity (such as a government department, a statutory body or a government company) previously controlled and typically at least majority-owned by the government, either directly or indirectly.

Mainstreaming privatization

Following the oil price shocks of the mid- and late 1970s, inflation spread through much of the world. US President Jimmy Carter appointed Paul Volcker as Chairman of the US Federal Reserve in 1980. The US Fed sharply raised interest rates to stem inflation, which precipitated the fiscal and debt crises of the early 1980s in many parts of the world, especially in Latin America, Africa and Eastern Europe.

The unexpected sovereign debt crises forced many countries to seek emergency financial support from the International Monetary Fund (IMF) and the World Bank (WB), both headquartered in Washington, DC. The IMF provided emergency credit facilities requiring (price) stabilization programmes to bring down inflation, typically blamed on 'deficit financing' due to 'macroeconomic populism'.

Generally, the WB worked closely to provide medium- and long-term credit to these governments on condition that they adopted structural adjustment programmes (SAPs). The SAPs generally prescribed economic globalization (especially of international trade and finance), national (or domestic) deregulation and privatization.

Since then, these international financial institutions have been more powerful in relation to developing countries than ever before. Soon, privatization became a standard requirement of SAPs. Thus, many governments of developing countries were forced to privatize by the SAPs' loan conditions.

Many other governments voluntarily adopted such policies which became standard pillars of the emerging 'Washington Consensus' associated with the WB, the IMF and the US policy consensus of the 1980s. Privatization in developing countries was preceded by the political 'counter-revolution' associated with the rise and election of Margaret Thatcher as the Prime Minister of the United Kingdom and Ronald Reagan as the President of the United States of America.

Jomo Kwame Sundaram, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought.