Thai Journal of Development Administration Vol.35, No.2, April-June 1995

Privatization: A New Trend and a Revolution in Public Administration

Voradej Chandarasorn*

Introduction

Privatization is one of the most impressive changes and trends in public administration at this time. Largely known to no-one until a decade ago, privatization may be recognized as a revolution in the area of public administration, particularly in the Thai public bureaucracy as well as in the world community. In addition, privatization is considered as an ideology both in political and economic terms.

In terms of political ideology, the past decade witnessed the swift changes taking place in the socialist countries of Eastern Europe, the unification of East and West Germany, the demise of the U.S.S.R. The existence of the welfare state with its vast and powerful bureaucracy has been threatened. To a large extent, the political aspect of the current trend towards privatization may be seen as a reaction to the growth of government and bureaucracy. The image of the state is changing dramatically. The government has turned more to the private sector for services. In recent years, Margaret Thatcher utilized privatization as a key policy in the political campaign that enabled her to win the election and become Prime Minister of the Unite Kingdom.

In terms of economic ideology, privatization reflects the desirability of reducing the size of the public sector and its involvement in the market economy. On the basis of the concepts of Adam Smith, administration in the public sector is inefficient and doomed

*Professor and Dean, Graduate School of Public Administration, National Institute of Development Administration.

to fail due to the lack of incentives for public officials and their self-interests. Thus, privatization represents the desirability of letting private individuals and enterprises undertake economic activities to the greatest extent for reasons of efficiency and economy.

In the general context, privatization is supposed to promote efficiency by decreasing the government's role. Its objectives are, for instance: (1) expansion of the private sector as an instrument for growth and development; (2) introduction of more competition in the economy; (3) reduction in the size of the government; (4) improving efficiency in the public sector; (5) increasing the quality of a given public service; (6) reducing the cost of producing a given service; (7) making the provision of a particular public service more responsive to consumer demands; (8) change in the role of government from command, control, and regulation to monitoring and promotion, as well as provision of incentives for the private sector to join in producing government services.

Privatization in Selected Countries

The United Kingdom is well known for its privatization policies. As the mother of modern privatization, the U.K.'s privatization experience is part of a change in the concept of the role of the public sector in society (De Ru, 1989: 2). The ultimate aim of privatization in the U.K. is probably not privatization but "rolling back the state", returning state-owned enterprises to the market sector (Dunsire, 1989 : 1). Specifically, it refers to any of the following elements:

1. Deregulation: the abandoning of state controls over private provision of goods and services.

2. The disposal of public-owned agencies to the market sector, in one of two main ways: by public flotation, and by direct sale to an existing private-sector company.

3. The sale of public assets, such as land and housing, to their tenants in many cases.

4. The contracting out of services formerly performed by public authorities "in house", such as cleaning and catering, or by local authorities through "direct labor", such as house maintenance and garbage collection.

5. The imposition of user charges and fees to clients for services previously rendered without charge and the increase of such charge to full cost levels.

6. The espousal of consumer sovereignty, the creation of a pseudo-market in place of bureaucratic allocation.

7. The espousal of performance measures inside the civil service, in place of traditional reward systems.

8. A drive to reduce the number of civil servants (Dunsire, 1989).

In the United States, divestiture or load shedding has not been the main objective of the privatization movement. The real objective is to subject government programs, wherever possible, to competition and to market mechanisms. In other words, the government is to perform the role of providing services without producing them.

Harold Siedman (1989: 1) identifies techniques designed to obtain all or some of the benefits of privatization and market discipline as follows:

1. Contracting for management and generation of government owned facilities, systems management and technical supervision, and delivery of goods and services,

2. Guaranteeing and underwriting loans made by private financial institutions.

3. Financing programs by user charges rather than by general tax revenues.

4. Chartering quasi-private and quasi-government enterprises to achieve public purposes.

5. Distributing purchasing power to eligible consumers by vouchers which enable them to buy designated goods and services on the open market.

In France, the privatization concept is restricted to selling enterprises to the public. According to Francoise Dreyfus (cited in De Ru, 1989), only competitive and profitable enterprises are to be considered for privatization. Public services like transport and energy are excluded for consideration due to the rigid French administrative law.

In the Netherlands, the definition of privatization is as broad as in the United Kingdom and in the United States. It refers to "all changes in status resulting in greater autonomy for the unit concerned, such that the performance of the activities in question is either less directly influenced by government or is removed entirely from the government sphere of influence" (Van de Ven, 1989: 4). In short, the Dutch privatization forms include liberalization as well as user charges.

In some developing countries, like Egypt, Morocco, and even Brazil, the definition of privatization provides another reality. The state, in most of these countries, is a major investor and owner of enterprises. Thus, selling public enterprises to the private sector in Western nations differs considerably from selling public enterprises in developing nations. The lack of private investment capital in developing countries as well as foreign investors being hard to find may also hinder privatization (De Ru, 1989: 5-6; Ayubi, 1989; 56).

In Thailand, privatization does not simply mean the selling off of public enterprises to the private sector. Panas Simasathein (1986) defines privatization as the transfer of the public activity to the private sector, and sale of public enterprises is part of privatization. For Dhiratayakinant (1987), privatization possesses broad concepts and it can occur not only in public enterprises, but also in the other areas of the public sector.

Forms of Privatization

Considering international practice, privatization may be categorized into the following forms: divestiture, joint public-private venture, contracting out, franchising, farming out, leasing, use of vouchers, grants, user charges, government withdrawal of services, and liberalization. Those forms, of course, reflect both the board and narrow view of privatization.

1. Divestiture

Divestiture means sale or transfer of government assets to the private sector. There are three types of divestiture : (1) complete divestment or sale of the whole of a state-owned enterprise; (2) sale of part of the public enterprise, i.e. the Petroleum Authority of Thailand may sell its gas stations to the private sector; or (3) the sale of stocks, partly to private investors. This form of privatization involves only the public enterprises.

2. Joint Public-Private Venture

Like divestiture, joint public-private venture is another measure for introducing private capital to share the risks of the public enterprise. A public enterprise may set up subsidiaries with private companies in the same business or an allied field. In addition, this measure can be applied to government agencies. For example, the Thai Fisheries Department may join with a Japanese company in fisheries business; a government university in Bangkok may join hands with a private university in some part of Thailand see original from the expressway service for a number of years after the completion of construction. Hence, turn-key projects help relieve the government's financial burden in developing the Page missing country.

3. Vouchers

A voucher represents a coupon of specified value given by a government agency to targeted citizens to be used in the purchase of a specific service or goods from the open market. This form of privatization gives subsidized consumers freedom to choose the supplier and reduces the government burden from operating such services.

4. Grants

This form of privatization also relieves government from direct production of certain services. A government agency may grant or give subsidies to certain private firms for the production of a service which is deemed desirable.

5. User Charges

This form of privatization is used for equity reasons. In general, government provision of a service is fully financed by taxation. Citizens may receive the service from the government free of charge without paying any taxes. Thus, by charging for the service on direct users, government is financing the service, fully or partly depending on the price charged.

6. Government Withdrawal from Services

This form of privatization may occur due to the following reasons: shortage of funds, government burden in providing increasing subsidy, absence of articulated need for the service, similar service also provided in the private sector. Canning products, hotel service, gas, and even bus services are examples of some goods or services that may no longer be provided and produced by the government.

7. Liberalization

Liberalization concerns removal or relaxation of statutory barries against the development of market competition. Its concept is close to deregulation, which suggests relaxation of public control over some industries such as utilities, transport, and communications which tend towards the creation or preservation of a monopoly. Furthermore, it includes the case of allowing the private sector to provide a service now monopolized by government.

This form of privatization induces more competition, decreases private or public monopoly and provides more choices for the benefit of citizen consumers.

The Case of Thailand: Guidelines and Measures for Implementing Privatization Programs

For the Thai case, the current Seventh National Economic and Social Development Plan outlines a number of guidelines and measures for implementation of privatization programs, as follows (NESDB, 1992: 246-248):

1. Improve supervisory mechanism

   a, Decrease government supervision and control of public enterprises, limiting the supervisory role to only the crux of government policies such as debt creation, delivery of revenue to the government, review of financial budget. size and pattern of investment, monitoring and evaluation; and increase the role of the private sector.

   b. Alter relevant laws and regulations for supervision of public enterprises to enhance flexibility of public enterprises.

2. Improve the system of public enterprise operation by reforming internal rules and regulations of public enterprises to increase operational efficiency, and to facilitate the increasing private sector role in joint development of services.

3. Utilize pricing policy to enable public enterprises to determine prices of goods and services which reflect production costs, based on efficient operation with high quality, by comparing the set prices with international standards.

4. Increase joint operations with the private sector.

   a. Create opportunities for private sector operation in activities which have previously been under government monopoly.
   b. Joint ventures with the private sector.
   c. Contract out certain activities or services to the private sector, or hire the private sector to manage selective services of public enterprises, as well as create opportunities for private sector investment and management of public enterprises; new projects under the agreement that project ownership will be transferred to the government after the end of the contract agreement.
   d. Diversify public enterprise shares, partially or totally, for sale in the securities market or, alternatively, arrange to sell shares directly to the employees or the public without going through the securities market.

5. Implement measures which may lead to the success of an increasing private sector role.

   a. Mobilize support from all concerned parties such as business communities, academicians, politicians, mass media, and public in general over advantages and disadvantages of increasing the private sector role.
   b. Promote business-oriented operation by reforming relevant laws which negate the private sector role in some activities, by decreasing the level of public subsidies, and by transforming the status of public enterprises into that of limited companies.

Implementation Progress

Thus far, Thailand has taken strategic steps in the form of allowing major telecommunications franchises and minority equity positions in the private sector, a bank, the airline (THAI Airways International Company), and upstream oil and gas, but control remains firmly with the public sector. In some sectors, particularly oil and gas, Trevor MacMurry (1993: B-17) notes that the reform of product pricing is at least as important a stimulus to more market-oriented performance as is privatization.

Another way of implementing privatization that is currently in vogue is to allow private firms to undertake projects under the aegis of public enterprises. The southern sea ports of Songkhla and Phuket, which were built with government funds, have been leased out to a Thai firm called CT Shipping Co. Kumagai Gumi and its Thai partners were awarded the mandate to build and operate the second expressway.

Formation of joint ventures with private firms to boost efficiency is another method. Two state enterprises under Agriculture Ministry jurisdiction, the Dairy Farming Promotion Organization and the Government Cold Storage Organization, will be privatized through the formation of joint ventures with private firms. These ventures will become subsidiaries which will take over the business of both state enterprises. The subsidiaries will, however, be majority owned by the state enterprises.

As for the Government Cold Storage Organization, the Agriculture Ministry is also trying to sell or lease a number of its cold storage centers to private operators. Some of these are losing money and the state enterprise has piled up about 700 million baht in debts.

The Provincial Waterworks Authority (PWA) under the jurisdiction of the Interior Ministry is another case in point. It plans to privatize its water supply operations nationwide to increase its capacity and efficiency over the long term. Three methods of privatization are to be considered: operation of water supply systems as a concession, a joint venture with PWA operated by the private sector, and a joint venture with the private sector operated by PWA.

Conclusion

Privatization in Thailand is emerging as a new trend in public administration. Many forms of privatization have been implemented. These range from the sale of state enterprises, either in part or whole, to the private sector, to liberalization. These are considered as means of improving the efficiency of the state-owned companies and public agencies, while enhancing their flexibility at the same time.

The process is also characterized as a financially prudent method of acquiring new equity capital for expansion. In addition, the listing of the state-owned companies on the Securities Exchange of Thailand (SET) is believed to contribute to the growth and development of both the equity market and the broader economy.

Thailand's relative lack of labor problems gives it an edge over several other countries currently implementing privatization programs. Its position may be further strengthened by the fact that the current law bars the existence of any union in any particular industry.

However, privatization cannot be promoted as a means of quelling potential labor conflicts. If anything, the privatization issue has sparked labor conflicts among state enterprise employees. An example is the privatization of Laem Chabang Port in which employees fought against proposals to commercialize their operations.

Perhaps the main obstacle to privatization is the criticism that privatization offers no answers in regard to wealth redistribution. On the contrary, the opponents argue that the rich will benefit from moves to sell off potentially profitable companies as they are in a position to snap up the shares. This argument has frequently been used to discredit privatization plans.

At present, it remains to be seen whether the Thai government can go ahead effectively with its privatization plan. The outlook is brighter than in previous years. The public is in the position to understand and realize that it is in their interest that expansion programs are not financed by the government. The state enterprises also admit that they are not able to obtain all of their funds from the financial debt markets. In addition, privatization can help expand the private sector which is to serve as an engine of growth. In short, ultimate objectives and benefits of privatization have been realized more and more. And that would mean a new era of public administration in Thailand.

REFERENCES

Ayubi, Nazim N. (1989), "Etatism vs. privatization : The Case of the Public Sector in Egypt". A Report Submitted to the XXIst International Congress of Administrative Sciences, held in Marrakech, Morocco, 24-28 July.

Dhiratayakinant, Kraiyudht (1987), ***Privatization : An Analysis of the Concept and its Implementation in Thailand.*** Bangkok: TDRI.

Dunsire, Andrew (1989), "Public/Private Debate : Some United Kingdom Evidence". A Report Submitted to the XXIst International Congress of Administrative Sciences, held in Marrakech, Morocco, 24-28 July.

MacMurray, Trevor (1993), "Rethinking of Privatization Taking Place in Asia", ***The Nation,*** 24 August.

NESDB (1992), ***The Seventh National Economic and Social Development Plan (1992-1996).*** Bangkok: United Production Ltd.

Ru, Hendrik De (1989), "Public Enterprises Versus Privatization: How to Offer Public Services". An Introductory Report Submitted to the XXIst International Congress of Administrative Sciences, held in Marrakech, Morocco. 24-28 July.

Seidman, Harold (1989). "Public Enterprise Versus Privatization". A Report Submitted to the XXIst International Congress of Administration Sciences, held in Marrakech, Morocco, 24-28 July.

Simasathein, Panas (1986), "The Role of the Finance Ministry in Implementing Privatization Policy". ***Public Policy Studies,*** Vol. 28, No.3, January.

Van de Ven, A.T.L.M. (1989)., "Privatization in the Dutch Civil Service". A Report Submitted to the XXIst International Congress of Administrative Sciences, held in Marrakech, Morocco, 24-28 July.