

("The fiscal impact of privatization") which should not be construed as implying that privatization has a negative fiscal impact and should be discouraged. Rather, it should be seen as how asset sales can generate revenues to improve the budgetary position of the PEs.

The privatization experience and practice in the final section is backed by case studies specifically from Africa, Malaysia, Singapore, and Chile. They cover almost every aspect of privatization in their respective countries such as the current position of privatization in Malaysia; performances of Singapore's PEs before and after privatization; and the different phases of the privatization programme in Chile. Included are also some examples of privatized firms such as the Nigerian Water Supply and Waste Removal, Singapore Airlines, and Malaysian Airlines.

The four country case studies are well picked for the relevance of the privatization experience for other LDCs. However, the Singapore case is unique. The objectives of privatization in Singapore are different compared with those in other LDCs. One distinct difference is that the Singapore Government has explicitly stated that they do not need the funds from the divestment programme whereas the financial consideration is the main factor for the LDCs to privatize. Nevertheless, the Singapore case is an important example that privatization will succeed when the right mix of appropriate policies are implemented at the right time together with conducive conditions such as having an efficient capital market, well thought-out plans, and committed leadership. From these case studies, the countries' experiences are applicable to other LDCs who wish to extrapolate lessons from them. Therefore the objective of this book which is to consider whether privatization is the appropriate policy in light of the problems of LDCs is achieved.

All in all, the papers in this volume provide important insights into the current debate of privatization. This is especially useful to policymakers in LDCs as the book indirectly gives the awareness of the various pitfalls during

privatization. Thus, the book is essential reading to all those practitioners concerned with development policy issues in both developed and developing countries.

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Prospects for Privatization. Edited by Steve H. Hanke. New York: The Academy of Political Science, 1987. Pp. 214. US\$9.95.

The trend towards privatization needs analysis is examined in this interesting volume, edited by Professor Steve H. Hanke of the Johns Hopkins University.

Privatization, the antonym of nationalization, is the transfer of assets or services functions from public to private ownership or control. While nationalization is a thoroughly researched topic, privatization has had less coverage until about 1980, when the trend towards more government spending, ownership, and intervention has been seriously questioned.

The purpose of *Prospects for Privatization* is to redress the imbalance in the literature between nationalization and privatization. Professor Hanke drew upon his extensive knowledge of the subject and obtained essays from a group of distinguished scholars to produce this volume. It covers a wide range of issues on privatization in the context of the American economy. Some of the papers were presented at a conference at Columbia University on 20 November 1986.

The book lists the popular objectives of privatization as follows: (1) the improvement of the economic performance of the assets or service functions concerned; (2) the depoliticization of economic decisions; (3) the generation of public-budget revenues through sales receipts; (4) the reduction in public outlays, taxes, and borrowing requirements; (5) the reduction in the power of public-sector unions; and (6) the promotion of popular capitalism through the wider ownership of assets.

The first section of this volume, "Privatization as a Means to Control the Growth in Government", focuses on the second, third, fourth, and fifth objectives cited above. The second section, "The Economics of Privatization", addresses the first objective. "A Status Report on Privatization", the volume's final section, covers all six objectives in the context of on-going privatization programmes at local, state, and Federal levels of government in the United States and also internationally. Although the contributors to this volume strongly support privatization, they balance their analysis with the third section, "The Case Against Privatization".

Privatization is a potent political strategy to reverse the momentum towards ever-larger government because of its underlying potential to change the pattern of demand for services. The inability of the politicians to control the growth of budget deficit is due to their failure to change the underlying political dynamics that favour increased Federal spending. The advantage of privatization is to create the conditions in which demand for government spending is diverted into the private sector, that is, to replace the public-spending ratchet by the private sector ratchet.

Stuart M. Butler shows how the privatization strategy works to resolve the conflicting interests of the budget-cutters and the beneficiaries of government expenditure. He draws three examples from the United States and Europe to illustrate the political potency of privatization dynamics — the privatization of public housing; the stock offerings of nationalized companies, and the use of tax deductible Individual Retirement Accounts to reverse the Social Security ratchet.

Stated simply, privatization is one of the most effective ways to reduce tax-funded politics and the undesirable consequences that result from this type of advocacy. Bennett and DiLorenzo in their essay explain the process of tax-funded advocacy and discuss the problems and prospects for privatization as it faces opposition from tax-funded politics.

Louis De Alessi makes a careful economic

analysis of property rights and privatization. Property rights are the rights of individuals to the use of resources and its strength determines the relationship between the welfare of the owners and the economic or social consequences of their decisions. The author shows how government ownership limits the individuals to the use of resources and thus reduces the effectiveness of the market in solving the economic problem of scarcity. He provides evidence to suggest that government ownership and regulation result in output that is smaller and less responsive to individual wants. A careful programme of privatization would result in higher output and increased welfare.

A few essays are devoted to the discussion of the various privatization policies such as load-shedding through privatization, the sale of assets, contracting out, and state entities in partnership with private sector. It also looks at planned or implemented privatization for some industries like waterworks, airlines, urban transit, and social security and welfare programmes. The authors provide a variety of rich evidence and analysis regarding the consequence of government ownership and privatization. They discuss the problems, proposals, and benefits of privatization for a particular industry. For example, Stephen Moore writes on the local experience with contracting out, saving derived from contracting out, and objections to contracting out. A. Walters compares the costs of services of privately owned buses with those of the nationalized companies. These analyses serve as good lessons from which to learn.

In spite of the promises of privatization, privatization is not a total remedy against all ailments. A pragmatic public policy approach is to recognize the potential of privatization alternatives and public provision. The theme of the essay by Paul Starr is the choice of possible mixed public-private structure.

Robert Bailey presents some of the limits to privatization to reduce the ideological character of privatization to practical guidelines. He lists ten issues for consideration before a commitment to privatize is made: hidden monopolies,

the continuing need to regulate, the availability of a vendor, transition costs, loss of economies of scale, the problem of estimating market value, contract compliance, lost opportunities, the costs of failure, and the limits of governance.

In short, the contributors of the book are optimistic about the prospects for privatization and for overcoming the limitations involved. However, they fail to emphasize that the success of privatization depends heavily upon the existence of a strong capital market and private sector. For readers from different countries who want to know more about the application of privatization in their country, this book can only serve as a general guide.

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Privatisation and Development. Edited by Steve H. Hanke. California: International Center for Economic Growth and the Institute for Contemporary Studies, 1987. Pp. 237.

This book is an edited volume of articles presented at a conference on privatization organized by the United States Agency for International Development and held in Washington, D.C., in February 1986. The list of paper writers for the conference and, therefore, for this volume is indeed impressive. It comprises high-ranking politicians, civil servants, academicians, and consultants, both at the national and international levels, who have been involved directly in privatization exercises in various parts of the world. This book, therefore, brings together in one volume a wealth of experience related to privatization and should prove useful to all who are interested in the subject. It is particularly useful for the practitioners since the book does provide useful policy guides on how to get the privatization process successfully launched in both the developed and the developing countries.

A major prerequisite, it would seem, is the need to win public support for the exercise. Here,

the book has a few suggestions. First, the public must be told that efficiency will increase following on from privatization and that they will benefit from both an increased range and quality of goods at lower prices. Next, they can be part owners through subscribing to the shares of the newly privatized companies. And opposition from both labour and management can be muted through the possibility of some state-owned companies being sold to them. Once the public is convinced that they will be the major beneficiaries from privatization, they will most likely support it — as experience in countries like the United Kingdom will confirm. But this support must be coupled with possession of political will on the part of the government if privatization is to succeed.

The scope and coverage of the book are indeed wide. It is divided into five major parts: Part I, entitled “Privatization in the Developing World”, comprises three overview articles on privatization; Part II discusses the politics of privatization under the title “Foundations of Privatization”; Part III entitled “Planning for Privatization” provides the practitioner with a check-list of things to do in a privatization exercise; Part IV looks at privatization of the various sectors under the heading “Privatization for Development”; while Part V “Cases of Privatization” presents several case studies on privatization. Most, if not all the articles, tend to focus on practical issues related to privatization with less emphasis on the theoretical aspects.

The ideological orientation of the writers is obvious — almost all believe in the virtues of the free market. Hence all support privatization. Several chapters have even been written to show how privatization has led to increased efficiency, wider share ownership, and higher economic growth in several countries. The most pertinent is Chapter 17, “The Anatomy of a Successful Debt Swap”, written by the editor himself, where he shows how privatization has promoted high economic growth and reduced the debt of Chile. But sadly missing is a discussion of the impact of privatization on income and wealth distribution. My guess is that privatization could not have had