

PRIVATIZATION FRAMEWORK: POLITICAL ECONOMY PERSPECTIVE

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Abstract

Privatization has been recognized as a worldwide phenomenon. In this paper, a political economy approach is developed to analyze privatization. The approach assumes that political economy and privatization overlap in people's need. So, the framework of political economy in privatization is based on the 'need' philosophy. Government and private sectors are contrasted in this respect, leading to a conclusion on privatization as a method to manage the economy.

Keywords: *privatization, political economy, public sector accounting, public private partnership.*

INTRODUCTION

The role of public enterprise has been challenged in the last ten years, and the belief in public benefit from government-owned enterprise has been questioned (Galal, *et al.* 1994). In these circumstances, hopes have been focused on the other side of business, the private sector. Governments have come to subscribe to belief in the market forces reflected in a belief in privatization.

As a matter of influence, the trend to privatization has been spread to many countries (Smith and Staple, 1994; World Bank, 1992). This international movement creates an assumption that privatization is a general prescription for the ill of nationalized industry problems. Privatization has even been proposed as a prescription for better welfare, in the view of international institutions, such as the World Bank and IMF. Thus, privatization has come to be more of an ideological than a business strategy.

The objective of this paper is to develop an insight into privatization practice.

How is it treated in different backgrounds or perspectives? Is it possible to implement an approach, such as political economy? If it is possible, how can the perspective be developed to create an integrated understanding of the privatization phenomenon?

To achieve these objectives, the discussion starts by exploring two extremes of privatization theory. An in-depth understanding of both extremes is expected to help in the search for a privatization philosophy from a political economy perspective. Based on these discussions, a privatization framework will be suggested. Finally, the concluding comments will be delivered, in the light of accounting's role.

THE RECENT DEBATE

Privatization policy is actually highly correlated to the government's business role. In the literature, the debate about this role can be classified as two extremes: the United Kingdom and United States of

America perspectives¹(Henig, 1989). In UK government, business is assumed to be a part of administration (Beesley and Littlechild, 1983). On the other hand, the US government assumes their business is the people's. This means that the government's role is that of facilitator and organizer. Both extremes, with their different backgrounds, have enriched privatization theory. Below, we would like to explore the contribution of each perspective.

USA Perspective

In the USA, the privatization process was raised by the private sector. As a less state directed economy, US business is dominated by the private sector. People on the private side called for better management to serve public. Besides that, the budget burden of public service was increasing. At the same time, a major reform of government was proposed by academicians. The coincidence of interest among the public, the business community and academicians produced a self-conscious movement. So, in the mid - 1980s, the privatization movement began.

The US government based their actions on the ground of public policy. They viewed that the economy as a main stimulus to the need for privatization. Privatization actually arose from a need to rebuild local government practice. The federal government aimed to decentralize its economic responsibility. These processes were reflected in public services in the federal and local levels. This means that decentralization and freedoms for public enterprise were determined by public policy. Freedom for public enterprise has been mentioned as the substance of privatization (Swan, 1988).

¹ See Dunleavy, 1986, p.13. US and UK had been suggested as a leader of implementation public choice theory in privatization.

It seems that, in US, the government was a main actor. However, intellectuals had actually done their privatization groundwork for many years. Intellectuals, mainly economists, believed that societal conditions are produced by government actions, a belief explicitly stated in the book, *Capitalism, Freedom and Democracy* (Friedman, 1962). Government's behavior is contrasted with economic behavior. Friedman (1962) placed the dynamics of government as a subset of economic process. This gave economic theory the capability to refurbish *laissez faire* philosophy. Government intervention was allowed. Besides that, redefinition of local government practice was necessary. Thus, there have been at least three basic themes of privatization in US.

The theme is the analogy between government and private monopolies. Government was characterized as a public monopoly. The exercise of public monopoly is closely associated with inefficiency, unresponsiveness and waste, on the part of internal management. In the view of economists, this monopoly character gave rise to the possibility of applying micro economic analysis. This application would strengthen the image of economic theory's role in public policy (Webb, 1973). As a concluding comment, the monopoly characteristic caused an increase in the hegemony of economic theory.

The second theme is that government regulation is anti-consumer in effect. This theme refers to a political conflict of regulation. Most of the time, regulation is a symbol of the victory of large business or professional interest. Large businesses or established professionals have a tendency to influence legislators towards licensing and regulatory burdens on new and small entrants, legitimating action to reduce compe-

tition in industry. However, such action can never be in the consumer interest. The consumer is only an object of the product. So, the cumulative power of consumers is necessary to influence the legislators. The government, here, acted to co-ordinate consumer interest. In this case, the accusation that government was anti consumer could be considered as a preventive warning.

The third theme is the distinction between government responsibility and government provision. The former is about government's responsibility for managing public goods, a notion closely related to the government's practice. The latter is about how government set their terms for meeting public needs. This means a standardization of public service. The question will be, 'is the standard fulfilled by government's practice?'. If different, it is caused by the nature of 'public goods' and difficulties in the market process. In other words, the bias is a result of the nature of goods and market distortions. Economists view the bias as a result of discrete transactions among self - interested individuals. On many occasions, the self - interested individuals are self interested politician and bureaucrats who implement the public policy.

Considering those themes, the possibility of building a privatization theory was raised. Friedman (1962) suggested three elements of theoretical infrastructure for privatization; first, a revisionist interpretation of the origin and maintenance of the welfare state that accounted for government programmes and regulations by self-interested bureaucrats and politicians; second, a formalized theory; third, in vouchers, a proposed mechanism for moving away from governmental provision of services without necessarily denouncing governmental responsibility. This theory was implemented by exploring micro economic theory

in a public policy context. However, the theory of privatization remained isolated from American politics and policy. The legitimization of the idea of privatization required evidence that market forces would produce public good. In the US context, the first step to producing that evidence was to reconceptualize existing governmental practices. Studies by Ahlbrandt (1973) and Savas (1974) delivered the first evidence, in their studies about fire protection services in Arizona and urban services in New York. The results of their study were astonishing, so people started to rethink about the difference between public and private performance.

The process of induction was getting serious in President Reagan's administration (Swan, 1988). The US government formulated a proposal reflecting the kind of privatization practice taking place in Great Britain. Several elements marked privatization as a serious policy on the government agenda. The first was the sale of a wide range of governmental assets, like CONRAIL and AMTRAK. Second, the government adopted the unfamiliar term 'privatization', along with the argument that privatization simply represented an adoption of private means to pursue public goals. Third, the proposal linked assets' sales with a broad array of alternative techniques. The concept identified contracting out, grants and subsidies, tax incentives, deregulation, vouchers, franchises and divestitures as techniques. In the end of proposals, the administration drew clear and implicit analogies to the British experience. They claimed that Margaret Thatcher's administration already had demonstrated the economic feasibility and political popularity of privatization.

The proposal took the development of privatization theory to an advanced stage,

which can be called maturation. The reason is that privatization became a major issue on the national agenda. The context of maturation here is in the policy theory. Indicators include the joining of economic theory, a catalogue of techniques, reinterpretation of past practice, and a political strategy for institutionalizing change. These indicators presented recognition of the importance of political as well as economic interest.

The development of privatization theory is dependent on its appropriateness to privatization practice. The greater its ability with the reality of as politics and policy, the more advanced is the theory. According to Friedman (1962), closeness to the government provision will lead the development of privatization theory. Besides that, as times have changed, a more flexible interpretation has grown up. In other words, a modest interpretation is needed in order to put privatization theory into practice.

UK Perspective

In contrast to the US situation, privatization in the UK is pushed by government initiatives (Marsh, 1991). In 1979, the government transferred from the Labor to the Conservative party. In Thatcher's administration, there were some significant changes in belief. The monetarist approach to organizing the economy was favored. The administration focused their work on controlling the money supply, reducing public expenditure and cutting income tax. This means that economic policy was driven by ideological belief, rather than economic assessment.

The ideology was associated with multiple objectives: economic freedom, efficiency and wider share ownership (Clarke, 1993). Economic freedom, here, means that the management of privatized corporations

would be free to invest in market opportunities and the consumer free to choose. This freedom was expected to lead to efficiency, stemming from the disciplines of the product and capital market, and the profit incentive. However, an ideology needs to be shared by the majority in the community. In this case, wider share ownership was promoted, in order to create popular capitalism (Rowthorn and Chang, 1993).

The impact of the elaboration of ideology into objectives produced Thatcherism in government policies, which were driven by a desire to finance existing expenditure / tax cuts through mechanisms that reduced of the public sector's net worth and disguised the true fiscal deficit (Marsh, 1991). The reduction of the public sector's net worth meant calling for the private sector. This is called a conflict between denationalization and the promotion of competition. Competition, here, is promoted through liberalization. So, Thatcherism resolved the conflict by privatization, which meant a call for the extension of individual share ownership.

In case of greater competition, the process of denationalization became a necessary step to secure the management. The administration approved denationalization as a way to face competition. The assumption behind this argument was based on a budgetary point of view. Denationalization is a step to greater efficiency. Since denationalization is close to the market, the management should be able to compete with other companies in the industry. The performance standard is shifted from a government to a market standard. This shift propels denationalization towards a faster elimination of uneconomic capacity. In the case that government performance is lower than the market standard, there will be a reduction of unnecessary ineffective and

inefficient activities. The last argument from the budgetary point of view is that denationalization eliminated claims upon the government budget, from the government enterprises.

In UK, the privatization concept has been translated into more practical concerns (Jones, 1993). The concerns here are about competition policy, corporate disclosure and corporate ownership patterns. The vision of competition is explored to understand the future of industry. Calculation of the strength and type of competition is important to determine the most practical route to privatization. The right choice of privatization form will deliver the right strategy to face competition (Smith and Staple, 1994). In the case of investment projects as a type of privatization, management will face the challenge of technology, instead of ownership. The sacrifice and risk are low. However, changes of business environment should prompt consideration of other forms of privatization. For example, when funding is related to international finance, it is better to use asset sales, like stock exchange. When it is only to create supporting condition for the growth of industry, deregulation will be the answer.

That pragmatic route was formalized by corporate disclosure. In corporate disclosure, the management policy and their analysis are explicitly printed. Disclosure can reflect the conditions before and after privatization. Besides that, it can explicitly state whether management has fulfilled the requirements of government or other bodies. In this case, management exercises corporate disclosure as a way to communicate with society before, during and after privatization. So, for external bodies, corporate disclosure has become a formal guide to evaluate management in their privatization policy.

The last concern is about the corporate ownership pattern. This concern is more to do with the composition of corporate shareholders. Related to privatization, this concern has a similar meaning to selling corporate stock on the capital market. The popular term is 'go public'. The pattern of ownership has become one of more people's involvement, more stock issued and a more complex accountability process. In the societal sense, the corporation has become more democratic (Rowthorn and Chang, 1993). This means that corporation is open and directly accountable to the public. So, privatization has changed the accountability orientation from government and limited shareholders to public ownership.

In practice, the administration implemented a regulatory approach to stimulate privatization (Wellenius and Stern, 1994; Harris and Milkis, 1996). They regulated a formula $RPI - X$ to restrict prices. This means the prices of public utilities, product and service were adjusted to the rate of inflation minus x percent. This formula provides an incentive to reduce cost and to innovate.

Above, we have presented a critical description of the UK privatization process. Behind that story, there were some threats. Administrators were becoming conscious that the main point of privatization is to shift motivations of management towards profit making. It adversely affects willingness to provide some services for uneconomic bodies. Moreover, management should consider the future of their employees when the privatization process is started. These negative sides of privatization can be turned to be positive, however, if the government is able to choose and control the appropriate privatization method.

Comparative Analysis

The UK and US experiences in privatization were different in sequence and in emphases. The two perspectives are actually complementary. Both perspectives have enriched the privatization theory. Besides that, both made people aware that privatization is a way of managing the national economy.

The differences between the UK and US start with the fundamental philosophy. For the UK, the philosophy was Thatcherism as a political ideology. This political ideology influenced the themes of government policy: such as economic freedom, efficiency and wider share ownership. It spread the ideas among people, so the motivation to privatization arose from political consensus. On the other hand, the philosophy of privatization in US was based on economic theory. It was built by academicians, especially economists. The study of economy in government led to a study of the failure of big government. From that point, the themes of privatization were raised: big government, government regulation, and, government provision. These themes made privatization a matter of public policy in the US context.

The impact of privatization has gone along with the implementation of the concept. In the US, privatization has become a part of political strategy. The theory led to a re-conceptualizing of existing governmental practice, and here to the appropriate method of privatization: the regulation approach. On the other hand, in the UK, the implementation was more detailed and pragmatic. The administration offered a choice of ways to implement privatization: asset sales, deregulation, contracting out work, private provision works, investment projects, reduction of subsidies and council house sales. These choices can be carried

out separately or combination. In the implementation process, the government role is only as that of a regulator. Government's concern is only for price restriction.

Despite these differences, however, there are also similarities. Privatization generally changes management attitude toward profit making, because profit tends to be shareholders' main concern. However, this does not mean there are no other concerns. Since privatization also promotes shareholders' democracy, management should be prepared for any difference in the focus of shareholders. This means that privatization demands more management concern.

Both the US and UK perspectives have contributed to the privatization concept. The US has contributed more on the side of economic and regulation theory; the UK on developing privatization as a pragmatic concept. Thus, these different are complementary. As we understand it, the UK perspective has a tendency to be too simplistic. On the other hand, the focus of the US is often biased.

Finally, the UK and US perspectives agree that privatization is a matter of political economy. The UK emphasizes the economic side, while the US lays more stress on the political side. Both show that the impacts of politics on economy and vice versa arise as main issues in privatization. The conclusion reflects that privatization is actually a method of managing the economy.

PHILOSOPHY OF THE PRIVATIZATION IN POLITICAL ECONOMY PERSPECTIVE

The understanding of privatization as a matter of political economy leads to the idea of reconstructing the theory. Since privatization theory is still in its early stages, a

contribution from political economy will be a significant one. The US practice contributed from the economic theory side. On the other hand, the UK raised this issue by means of a more pragmatic approach. The question is whether either or both can provide a pattern of privatization for other countries. Learning from others can be done by learning the theory and learning by observation. In this section, we build a foundation to develop the privatization framework from a political economy perspective.

In previous sections, it was shown that privatization can be approached by, in terms of governmental issues and economic policy issues. From a governmental perspective, privatization is explored to restructure ways to serving the public (Goodman and Loveman, 1991). It involves decentralization, control and optimization of economic capacity. On the policy issue, privatization is exercised to multiply economic growth, which, here, means how people's need can be fulfilled better. This means that privatization is actually a method to serve people's need better. In other words, the main point of privatization is managing people's need.

From this point, we started to develop a new way to see the privatization problem. The fundamental issue in privatization is people's need (ibid.). On the other hand, political economy is essentially about how to distribute resources (Caporaso and Levine, 1992). It is closely related to 'producing and arranging people's need'. This means that to develop a political economy perspective on privatization, it is best to start with critical analysis of people's need. So, this section will be about need and alternative ways of meeting it.

Related to those arrangements, our discussion about need will determine the appropriate roles for government (public sector) and private sector. Both sectors have

a duty to manage resources to meet people's need. So, a critical understanding of the management network can be suggested as a basis to introduce a framework for analysis of privatization case.

Need

It has been concluded that privatization arise from management of people's need. In this subsection, the people's need will be examined in terms of the nature of need itself and how people respond to the nature of the need. This involves classifying needs and exploring the essential issue of managing resources, as a way to renew our interpretation on privatization.

In general, need is classified in terms of goods and services. This general classification stems from the kind of product available in market. However, this classification is too simplistic; it does not reflect the management process of producing and arrange 'need'. So, two important concepts of people's need, exclusion and consumption, are investigated, in order to find a way to reclassify the need (Vincent and Ostrom, 1977).

The exclusion and consumption concepts are explored from the perspective of matching events of seller and buyer. Exclusion is a condition in which potential users of services and goods can be denied. The condition here is set by potential suppliers, and is attached to cost, instead of logic. So, the feasibility or in-feasibility of exclusion is determined by relatively low or high range of cost, which enforces exclusion. On the other hand, consumption is a condition in which services and goods are used. The condition here is set by consumers. This makes the condition attached to logic, instead of cost. The consumers can be divided into joint and individual consumers.

By developing both concepts, a new classification of goods and services can be suggested. From a management perspective, the questions that arise in relation to goods and services are whether or not the need will be produced at all and what the necessary conditions are to ensure that the goods and services will be supplied. Both questions can be reflected in a schema that combines feasible and in-feasible exclusion, and individual and group consumption. The new classification can be:

1. Purely **individually** consumed goods for which exclusion is completely **feasible**
2. Purely **jointly** consumed goods for which exclusion is completely **feasible**
3. Purely **individually** consumed goods for which exclusion is completely **infeasible**
4. Purely **jointly** consumed goods for which exclusion is completely **infeasible**

Our classification need not stop at this point. The four classifications should be renamed as groups of need. In the first groups, the sense of individual is quite clear. The private character of the first group makes the commercial transaction a

bridge to obtain goods and services. The first group can be called as Private Goods.

In the second group, the sense of joint consumption is the key point. However, the suppliers still set the conditions. This means that the consumers have to perform a commercial transaction to obtain the goods and services. The second group can be renamed as Toll Good, which means that to get the services, the consumer should pay something.

In the third group, the sense of individual is raised as a main issue. The difference from the first group, is that in this third group, suppliers do not have influence. This means that individuals can obtain the services without any obligation. The character of the goods is common, and, the suppliers do not handle any restriction. So, the third group can be renamed as Common Goods.

In the last group, the sense of collectivity is raised, also sense of common. This makes this group as a free group. This group can be called as Collective Goods. The characteristics of our classification are summarized below:

Figure 1: Classification of Goods and Services

	Easy to deny condition	Difficult to deny condition
Individual consumption	Private goods	Common goods
Joint consumption	Toll goods	Collective goods

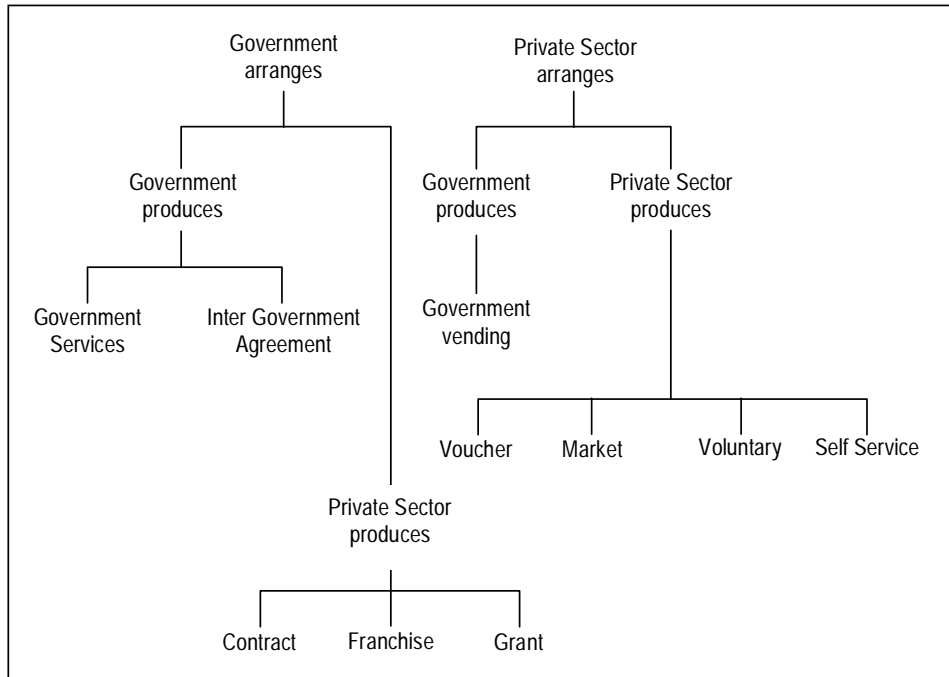


Figure 2: Need Network

Under easy to deny conditions, private goods and toll goods can be supplied by the market. In these types, collective action plays a minor role, especially to establish ground rules for market transaction. Under difficult to deny conditions, common goods and collective goods require collective action to ensure the supply of goods and services. From our discussion, the government, here, plays a greater role in relation to the collective and common goods.

After reclassifying need, the next fundamental thing behind privatization is collective action. Collective action can be interpreted as a group movement to fulfill people's need. It is necessary to 1) decide which private and toll goods are to be defined as worthy goods; 2) decide on the level of supply; and, 3) decide the price of goods. This means that the essence of collective action consists of making decisions and raising money. Making decisions is represented by a political consensus to decide which goods and which level of supply are desired, and raising money is represented by the implementation of prices of goods. So, this means that collective action is about action to make the need worthwhile for people.

The question now arises, how to organize the collective action. The action involves several agents. Three basic participants in the delivery of a service can be identified: the service consumer, the service producer and the service provider. The consumer is the agent who receives the service. The service producer is the agent who actually and directly performs the work or delivers the service to the consumer. The service provider is the agent who assigns the producer to the consumer, or vice versa, or selects the producer who will serve the consumer. It seems that these three agents create need's network. The flow of the work

will be depended on a matching between supplier and buyer. In this network, the key player for matching is service provider.

This brings us to the question, who can be the service provider. The answer is government and the private sector. Next, between the consumer and producer, which one is closer to the service provider? Since the main topic behind business transaction is cost, the producer is the main determinant in the business transaction.

The answer to collective action is not completed yet. The last step in the network is owned by consumers. The consumer is best seen in terms of types of transactions, i.e. government - government, government - private and private - private. From observation, ten arrangements for people to fulfill their need can be mentioned. They are government service, inter-governmental agreement, contract, franchise, grant, voucher, market, voluntary, self service and government vending. The complete network is depicted in *Figure 2*.

The network consists of matching between all agents: supplier, provider and consumer. An interesting aspect of this chart is that the consumer cannot exist without a transaction. This means that the decision to produce and arrange the goods is more important than the decision to consume. This phenomenon is influenced by the role of the provider. As the provider works in the interest of cost, the whole of the network is based on how the cost/price/conditions of suppliers can be fulfilled by the consumer.

Privatization as a Reflection of Need

Our understanding of 'need' leads to the question, 'how need can be related to privatization'. The relationship is quite interesting, especially when the need can be interpreted as an alternative arrangement

for managing the economy. Need is a symbol of people's life. In *Figure 2*, need was seen to be a cumulative effort among producer, consumer and arranger. In this case, the result of the effort is an event where the consumer's capacity matches to supplier's condition. The events are government service, inter-governmental agreement, contract, franchise, grant, voucher, market, voluntary, self service and government vending.

These events can be interpreted as need arrangements. These arrangements can be divided into private sector arrangements and public sector arrangements. It means that in on one side, the tendency is to privatize; while on the other side, the tendency is to nationalize/governmentalize or de-privatize.

Since political economy can be described as a way to distribute people's resources (need) and this arrangement is a way to fulfill people's need, *Figure 3* can be viewed as a Spectrum of Privatization. This means that privatization can be interpreted as a dynamic concept. Privatization can change from an arrangement with high government involvement to one with less; correspondingly, it means changing to an arrangement where the private sector plays a more dominant role. Political economy will be a way of negotiation to make the mechanism of privatization working. The direction of the mechanism is from market to government, or vice versa, as in *Figure 3*.

An understanding of the political economy of the privatization mechanism brings us to types of problem which arise

from the dynamic characteristic of privatization. Problems in privatization arise in relation to:

1. Changing from government to contract, grant, voucher, franchise, voluntary or market;
2. Eliminating grants (producer subsidies) in favor of voucher, voluntary or market arrangement;
3. Denationalizing as a particular form of privatizing that involves selling to the private sector, government owned enterprises or government owned assets used in producing goods or services;
4. Recognizing that a particular government - supplied service is a toll or private good and imposing a user charge;
5. Deregulating franchises and eliminating other price controls and entry barriers, in order to permit the market to respond to people's need.

These problem focuses are represented to provide the global feature of the privatization process. A privatization proposal should reflect as the answer to the focus of the problem. This means the focus is a direction to understand the process of privatization and to show a critical point in the process.

The above philosophy of privatization from need could be seen as a way to distribute need by defining the duties of the public sector and private sector. In this case, this philosophy can be termed a political economy of need. In fact, the need has been put in the context of privatization. Thus, this section has actually offered a political economic philosophy of privatization.

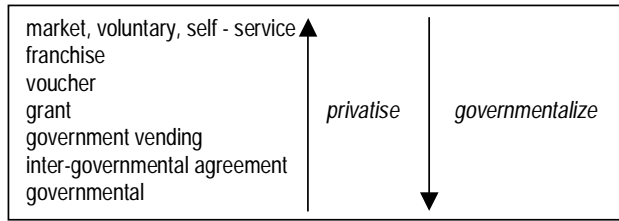


Figure 3: Need Reflection

PRIVATIZATION CONCEPT FROM A POLITICAL ECONOMY PERSPECTIVE

The above discussion has shown the validity of the political economy perspective as a way to view privatization. Also, the debate has been concluded as a way to understand how privatization has been explored up to now. Both tend to an impression that privatization is a survival method for public sector enterprises. Privatization can be interpreted as a concept, ideology and even as public policy. It has delivered a bridge between economic theory and its implementation in the public enterprises. The debate between UK and US presented earlier is more about the point at which privatization started to be discussed. UK started from public policy, while the US started from a concept. So, the broad idea needs to be viewed from a particular perspective. In this paper, the privatization will be explored deeply from the perspective of political economy.

Political economy is defined as a subject of distribution of economic resources and product. The main questions are who gets what and how much. Behind this is the need of people, which is interpreted as a way to fulfill people need. In this case, the important factor in describing the distribution is the "arrangement" meaning as organization, co-ordination and flow of work. Related to the previous section, the arrangement might be interpreted as a type of business. This means the distribution of resources or product would have a range of arrangement, which has a tendency to privatize or governmentalize.

Privatization and governmentalization are viewed as two extremes. If the government chooses to have more influence in business, it will direct companies to the governmentalization extreme. On the other

hand, if they prefer to allow the private sector to play a greater role, the tendency will be toward privatization. The factors that determined the choice are 1) specificity of the service, 2) availability of producers, 3) efficiency and effectiveness, 4) scale, 5) relationship of costs and benefits, 6) responsiveness to consumers, 7) susceptibility to fraud, 8) economic equity, 9) equity for minorities, 10) responsiveness to government direction, and 11) size of government (Savas, 1987). Different arrangements can be selected according to these factors.

These factors are actually reflected in three types of privatization analysis: macro policy for privatization; the process of privatization and post and pre the privatization process. Macro policy analysis is affected by the concern of government for efficiency, minorities, government direction and government size. The more government seeks efficiency, the more it will tend towards privatization. On the other hand, the more government enjoys the political orientation, the bigger the government size and governmentalization will be the choice.

The process of privatization is affected by the availability of producers, efficiency and effectiveness, scale, responsiveness to consumers and economic equity. If the preference of producers predominates, the tendency to privatize is greater. If the product or service is characterized as specific and particular, the government will prefer to privatize. And if the product is uniform and demand heavy, the governmentalization is preferable. In this case, the flexibility of private forms of business becomes a significant advantage in business.

In the pre - post of privatization analysis, the items of cost and benefit, specificity of the service and susceptibility to fraud can be a concern of privatization. The analysis of cost and benefit is recog-

nized as a main consideration in deciding whether to privatize or governmentalize. As regards of specificity of service and fraud, the government should have confidence in the degree of public support for the process of privatization. In this case, the clear information is needed.

These types of analysis stimulated the idea of a framework of privatization analysis. This means that the privatization framework can be divided into three types: privatization strategy for macro policy, privatization process framework and pre - post privatization framework. These three frameworks arise from the political economy framework.

Macro Policy Framework

The macro policy framework concerns the goal with which government is undertaking the privatization. In relation to this study, the answer is economic reform. Privatization is only one element of reform (Smith and Staple, 1994). Others are restructuring and competition. The sequence of reform differs from one country to another. One might choose privatization first, followed by restructuring and competition. Argentina is an example. Another might have the sequence restructuring, competition and privatization as did the UK. Japan's sequence was privatization, competition and restructuring. These varieties of sequence depend on each country's policy. The advantages of restructuring and commercializing the state - owned management prior to privatization are at least twofold. First, a successful restructuring programmed will enhance the management's performance and help to increase the sales value at the time of privatization (Clarke, 1993). Indeed, post-privatization restructuring may lead to a situation where all the economic benefits of the restructuring op-

portunity are realized by the new owners while much could have been captured by the government (i.e., the seller). Second, a successful restructuring programme can enhance management and labor productivity and morale, build confidence in the privatization process and reduce the likelihood of employees' objectives (Pitelis and Clarke, 1993). This means that each country which chooses the same method will get these benefits.

Related to the macro policy, the developing country's experience is slightly different from the developed country's experience. Most developing countries have limited experience of managing economic restructuring. These countries are sometimes facing a significant political constraints. The suitable approach for these kinds of condition is incrementalism. It may cause an unacceptably high cost where there are very large unmet demands and a massive infrastructure programmed. Privatization is preceded by a restructuring process in which the state - owned carrier is commercialized, and the government's regulatory responsibilities are separated from its policy - making and operational roles and placed in a separate organization.

The framework analysis of privatization from a macro view is quite important for understanding the objective of privatization, in the context of economic and political development. Some pre-conditions, such as regulatory reform, are needed to make privatization succeed. These situations should be created to support privatization as an applicable method of managing the economy. So, the first stage of the privatization framework from a political economy perspective is macro analysis. This will open an understanding on some backgrounds why the privatization is needed.

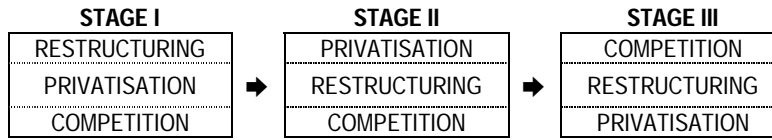


Figure 4: The Sequencing of Reforms

Privatization Process

The second framework of analysis from the standpoint of political economy concerns the privatization process. This framework is derived from macro policy analysis. The idea of privatization is better raised from the bottom up. The privatization process is begun from inside the enterprise. The macro policy is only to situate the external condition of the enterprise. As the main actor of privatization, the enterprise should be prepared to change and improve its internal capability. This means that the framework of the privatization process is about enlightening the enterprise (management).

Earlier the idea was put forward that the capability of an enterprise is determined by the strength of the organization and the accuracy of decision making. The more accurate management decision making, the more capable it will be of handling problems. Also, if the organization has a good teamwork, the strength of the organization will be solid. Within sufficient capability on the part of the enterprise, the management can start the process of privatization. For example, the management must ensure their financial statements conform to internationally recognize accounting standards.

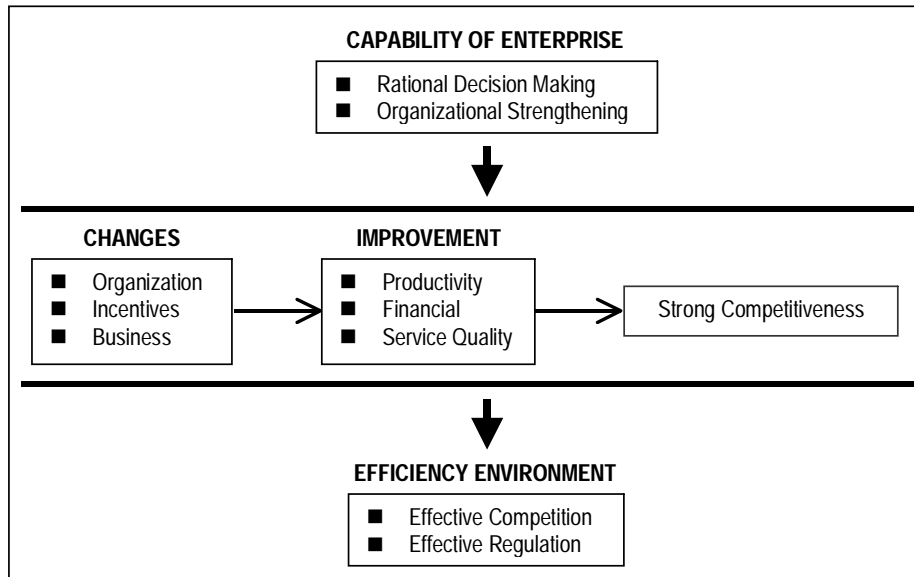


Figure 5: Privatization Framework

The flow of thought in the privatization process gives the impression that the actors in privatization are government and enterprise. The destination of the process is not on the public side but on the private side. That is why the term privatization is closely linked to the market. Or, in the figure above, management directs the enterprise towards the efficient environment. If, in the reality, the determinant of product acceptability is the market, this means that the efficient environment is equal to the market.

Pre - Post Privatization

The third framework of analysis from a political economy perspective is pre - post privatization analysis. Our understanding of the process and environment of privatization leads to a question of control. The question is mainly about how to control the process and its externalities. In other words, it is about how to control the first and second frameworks of privatization, from a political economy perspective. In this case, our study suggests that the reform should be symbolized by four aspects: 1) modernizing the organizational structure, 2)

financing organization infrastructure, 3) competitiveness and 4) policy and regulation. These four aspects become the barometer of the government’s ability to manage privatization.

Modernizing the organizational structure is simply called restructuring. In this phenomenon, management reorganizes their activities according to a new form and mission. The form can be shifted to a matrix, network and other forms. In restructuring, management can be enlarged or slimmer. However, the key to modernizing the organizational structure is to make organizations more flexible and adjustable to external competitors’ challenge and advantage.

Financing organization infrastructure reflects the introduction of new strategy to raise funding for management projects. Joint Venture, Build of Transfer and Leasing are suggested as some ways to create new capital resources. By inviting a new joint partner, management may be able to undertake new projects without selling their assets. This innovation is a key for management to improve their activities.

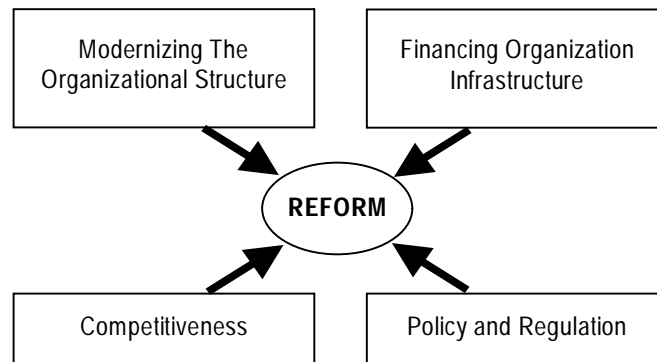


Figure 6: Evaluation of Privatization Framework

The third, competitiveness, is a result of modernizing the organizational structure and financing organization infrastructure. An effective management policy in relation to organization infrastructure and finance can strengthen the competitiveness of the enterprise. In this case, management should consider the business environment as a significant factor. However, the management may be constrained, or guided by regulation. The regulator can stimulate the enterprise to progress with certain incentives. On the other hand, management can be restricted from progress/certain alternatives cause of certain management objectives.

The framework of analysis provides guidance on which events of privatization are critical and challenging. The study suggests that in policy making and regulation are critical events to promoting successful privatization. The type of policy and regulation will affect the type of restructuring and teamwork in management activities. If the policy allows the diversification of suppliers, the management of enterprise should adapt to the new business competition. In this case, divisionalization will be a better choice to increase the range of supply.

The next critical event concerns restructuring. The management should adjust to the new demands of the industry regulator, and, in turn the new demands of world business. These events are critical, since the wrong choice of structure can impede the progress. Besides that, the shifting of power can create chaos, since the structure is symbolize of power. Another critical internal event is financing organization infrastructure. Finance is a substantial element of any enlargement project. In the privatization process, the type of finance will affect the type of teamwork and ownership. If management prefers contracting, the ownership

of the enterprise can be unchanged. In case of selling shares, management should shift their focus toward shareholders.

The last event that is regarded as critical is competitiveness. There is no measure of the degree of competitiveness. The only sign of competitiveness is that management can maintain its efforts in business over the long term. The right strategy will bring the progress in terms of profit, size of organization and etc, whereas an unwise strategy can cause a company to lag behind its competitors. This means that privatization can not be evaluated in a short term context. However, several signs of flexibility can be traced in the privatization process, such as increased profit, increase in the quality of human resources and improvement of other products of management. The key point of privatization is the morale of employees. If morale deteriorates, this means that management has failed to deliver the privatization message. This means that the political economy perspective of privatization depends on how management succeeds in convincing the other agents of privatization.

Recognition of Accounting Role

Our discussion on three stages of privatization framework has implicitly emphasized on the accounting role. In the macro policy framework, privatization is related to the restructuring and competition. To reflect the capability of competition, the management is suggested to disclose their financial condition as a part of their advantages. On the other hand, to reflect the new balance of power after and before restructuring, the accounting system works to reflect the impact of changing, like political, social and economy aspects. As a conclusion, the first framework has put accounting beyond its traditional function, recording.

In the second and third frameworks, accounting has been recognized as an indicator of privatization. The improvement of management can be analyzed by the comparison between accounting numbers in financial reporting. Besides that, the final product of privatization is mentioned as an efficiency environment. The management should disclose their efficiency. As a concluding comment, accounting's function has a capability to influence the environment in the second and third frameworks.

The purpose of this section is to deliver an impression that accounting's role is inherent in privatization. This means that privatization process can not be exercised without accounting. For example: if management would like to sell their shares in international capital market, they should fulfill an international requirement for financial statement. On the other hand, if management is suggested to take a loan, the banking authority will inquire a sufficient financial reporting. This means that the accounting roles in all privatization process.

CONCLUDING COMMENTS

Privatization can be analyzed from a political economy perspective. The characteristics of political economy match the characteristics of privatization. Both of them are rooted in 'need'. Reclassification of managing the need delivers to the range of political economy works in the privatization process. However, political economy contributes the notion of 'distribution' to the privatization process. This enriches the meaning of privatization; it is now seen to mean managing and distributing the resources and product of arrangements. So, the application of a political economy perspective to privatization analysis has a dual emphasis.

The framework for analysis of privatization can be divided into three stages: macro policy analysis, privatization process analysis, and evaluation analysis. These three frameworks are related to each other. The result of macro policy analysis is incorporated in privatization process analysis. Also, the analysis of macro policy privatization acts as inputs privatization process analysis. Also, the analysis of macro policy privatization acts as inputs to evaluation analysis. This type of relationship makes the privatization framework an integrated work. In this case, political economy clarifies how managing the process lead to better distribution of the product and resources. Related to this, accounting can act as a tool to show the managing and distribution process. The framework leads to recognition of accounting as a part of improvement, such as adjusting to international standard. By taking accounting as a way to see the privatization, political economy will exercise accounting not only for recording, but also for reflection of all privatization phenomena.

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