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Is the privatisation of agro-industries the way to escape from the heavy hand of the state?

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Typical and traditional productions:
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ABSTRACT

From the Maastricht Treaty seems quite clear that the monetary union requires the convergence of the economies of the State members.
The author stresses the need of privatisation of the public sector, agro-industries included. The first part offers a theoretical perspective of the issue "privatisation" and the main actors of the process are considered.
Afterwards, the attention is focused on the difficulties concerning the privatisation process and on some practical cases which are reported in order to verify whether gains are able to counterbalance losses. Particular attention is paid to the following variables: higher investment, managerial innovation, better pricing of the firm's services and the dismissal of surplus workers. Empirical evidence demonstrates that privatisation reduces inefficiencies but it also attests that EU policies are needed for a better and faster evolution of the process under consideration.

INTRODUCTION

It is remarkable how long an idea can stay buried, then how quickly it can burst into bloom. Privatisation is now so widely supported that it is easy to forget how old an idea is.

This new orthodox idea was built on a mixture of faith (in markets) and despair (over the record of state firms), rather than on hard facts about the benefits of shifting public enterprises into the private sector. The facts did not exist and it was hard to argue that state-owned firms were less efficient than private enterprises, because the two kind belonged usually to different types of industries and operated under different conditions. Far 30 year-s or so, the mainstream economic view was that it did not matter much who

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owned a firm, because governments should simply provide competition, promote managers and workers, the right incentives and invest in commercial and sometimes political grounds.

From the Maastricht treaty two things seem quite clear: monetary and political union. But though many of the Europeans favour the first despite their enormous problems and difficulties, almost all of them dislike the idea of a federal super-state.

The key to the monetary union lies in the "converged" economies of the state members and the successful convergence and depends, to a great extent, on the way of privatising the state owned enterprises and firms. On the other hand it is stressed that the drastic shrinking of the "corrupt and inefficient" public sector, is imperative with the immediate privatisation of these industries.

Nowadays privatisation policies are in progress all over in Europe, North America, Japan and numerous developing and newly industrialised countries, being of special interest to scholars, and policy-makers concerned with economic regulation, public enterprises and comparisons between them.

THEORETICAL PERSPECTIVES

In the "Wealth of Nations" Adam Smith (1776) argued that: "In every great monarchy in Europe, the sale of the crown lands would produce a very large sum of money, which is applied to the payment of public depts, would deliver from morgage 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".

This view of the issue has not gone uncontested. The Marxist critique of private owner-ship of the means of production argues that public management will do better in terms of economic efficiency than private management

The ownership of a firm has significant effects on its behaviour and performance since changes in property rights will alter the structure of incentives faced by decision makers in the firm.

Public and private ownership differ in the above mentioned two cases and as a result changes in property rights will materially affect the incentive structure and hence the behaviour of management. With respect to competition three issues have to be stressed:

- the role of potential competition,
- the properties of product market competition when viewed as an incentive mechanism, and
- competition consequences that arise in connection with networks and vertical relationships.

As far as the incentives are concerned within this framework, management of firms can be regarded as agents acting (in the case of private ownership) for shareholders or (in the case of public ownership) for the department of government to which they are responsible. Alternatively, in the latter case, government departments may themselves be considered to be agents acting for the ultimate principals, the voting public. Either way, an immediate result of privatisation will be some shift in the objectives of principals. In addition., it is also to be expected that the transfer of ownership will be associated with some change in the types of incentive systems that can be offered to management. Thus, private ownership, rewards can be linked with the company's share price via share ownership or option schemes, while poor financial performance might be penalized by he threat of a takeover by another- firm.

Finally, while public interest theories are based on the assumption that government departments seek to maximize social economic welfare. privatisation programmes lead managers of privately owned firms to place greater weight on profit goals (they try to maximize profits).

The last feature is the regulatory constraints which also plays an important role in the efficiency of firms, but since there are neither regulatory rules nor legislation instituted by the E.U. every state member follows its own policy and here is perhaps the weak point of the matter. The impact of changes on any one of those three sets of influences (ownership, competition and regulation) an efficiency,will in general depend upon the other two.

SELLING THE AGRO-INDUSTRIES IN GREECE

At the beginirig of the 1980's, when the Socialists came in power, there have been long and endless arguments about the question of privatising the overdept, mainly publicly owned firms and restricting the expanded role of the public sector. Their programme was "Socialization" and it planned to make the workers shareholders. However, at the end of the decade, when they started to think about it seriously, they lost power and became opposition and the Conservatives took over the government, and as

a new government were helped by the world tendency far restricting the expanded role of the public sector, and they consequently started to put into practice their own programme of privatisation. On the other hand they were accused by the opposition that they started the proceedings of selling not only the overdept but also healthy firms far the sake of the inflow of cash.

Now with the Socialists in power the idea has matured and great programmes of privatisation have been announced. Nevertheless, 1 would say that it would be wrong to assume that the two parties, which represent about 80% of the population have unbridgeable differences, reflected upon beliefs influenced much more by political philosophy and political expediency than by the niceties of economic analysis.

From this point of view the Agricultural Bank of Greece has been in the centre of events because many of its agro-industries (such as dairy, vegetable, tomato or sugar processing industies) are on the way to extensive privatisation, despite the long history of debate about the necessity of the matter.

In the effort to privatisation not anly agro-industries but every kind of industry, enterprise or firm, it is worthwile and advisable to take into consideration the following aspects:

- the competitive conditions of the market within the liberalisation of the international trade and
- the avoidance of briniging more unemployment and social tension helping the workers who will losė their- jobs.

In most cases four tasks are to be dealt with

- finding the best buyer to sell a few good firms
- restricting those firms which credibly argued that, given a chance, they could become viable and healthily competitive
- closing the hopeless cases and finally
- deciding what to da with those firms which prove to be unsellable but far one reason or another cannot be restructured or closed down.

ESCAPING THE HEAVY HAND OF THE STATE - LOSES OR GAINS?

There is no langer any doubt that privatisation is popular with all sorts of governments. But whether it delivers the gains promised by its advocates has remained a matter of dispute.

A study by the World Bank:, discussed at a conference in Washigton, three years ago, offers Persuasive evidence that, privatisation does, indeed, work. The Bank's study is far more detailed, and more rigorous, than most other research on the subject. Carefully estimating what would have happened if the privatised firms had remained in state hands, the Bank tried to measure the economic gains and losses to employees, taxpayers and customers, both at home and abroad, as well as the gains to government and shareholders.

The study looks at three cases of privatisation in each of four countries: Britain, Chile, Malaysia and Mexico. The sale of four airlines, three telecom firms, two electricity utilities, a road freight transporter, a container port and lottery business is examined. The sample is small and it does not include any mining or manufacturing firms. But it does cover a range of different circumstances in both rich and poor countries. And, as most of the firms were sold between 1994 and 1998, enough is known about their performance both before and after privatisation to iustify a detailed analysis.

In 11 of the 12 sales the Bank concludes that privatisation produced a net increase in wealth. Altogether, the 12 privatisations produced net gains worth, each year, about 26% of the firms's turnover, in the year before privatisation. The biggest gains came from privatising Chile Telecom (155% of pre-privatisation turnover) and Malaysia's Kelang covntainer port (53%). Only the sale of Mexicana, one of two airlines privatised by Mexico, led to a net economic loss, of 7% of the firm's preprivatisation turnover.

Such results are impressive, especially because the Bank tried mostly to exclude any benefits which were not clearly due to privatisation. Far example, several of the privatisations happened at the start of an economic upswing which might have also helped the firms if they had not been privatised. The introduction of competition into a previously manopolistic industry, as in the case of Chile's electricity utilities, also created benefits. In both cases, the Bank's economists have tried to identify and discount gains that were not attributable to privatisation.

The Bank reckons that privatisation produced gains far a variety of reasons, depending on the circumstances of the firm concerned. For the 12 firms studied, it took account of high investment, managerial innovation, better pricing of the firm's services and the dismissal of surplus workers. The importance of these factors varied from firm to firm.

The freedom to increase investment, says the Bank:, was critical in at least -four of the privatisations. Freed from state management and allowed to make use of the private capital market, Chile Telecom doubled its capacity in four years. Naturally this freedom sometimes led to mistakes. The problems of Mexicana, the airline which produced the only net economic loss of the 12 firms stemmed directly from the purchase of 14 new Airbuses to meet the demands of a tourist boom that never happened. The Mexican government would probably have been far more cautious.

Free of political meddling, most of the privatised firms raised their prices, but despite higher prices, consumer-s gained from four of the privatisations and there were net losers from only five. For example, despite the compaints fraom consumer groups in Britain, the customer- did well out of British Telecom's privatisation. Though the cost of local telephone calls went up, the price of long-distance calls fell; on balance, reckons the Bank, consumers gained. On the other hand, it says, the privatisation of British Airways enabled the firm to buy its only domestic rival, British Caledonian, in 1987 and then raise fares. In this case, consumers lost. The merger, and the higher fares that resulted, would not have been allowed, British Airways had stayed in the public sector.

Unsurprisingly, the study found that the firms reaped big gains from their manager's new freedom to hire and fire workers. Huge labour cuts boosted the performance of British Airways, British Telecom, Telmex and, most notably, Aeromexica, a Mexican airline. Fierce union resistance to privatisation at Aeromexico prompted the government to declare the firm bankrupt and then pass its assets to an entirely new company. All the workers were made redundant and the new firm was left to hire its own workforce from scratch. It now provides the same service with half as many employees. In only three cases did productivity rise due to better management with approximately the same number of workers.

Surprisinglyy workers often gained, too. In three cases, National Freight, Telmex and Enersis - they reaped big gains because their own shares in the firms soared. Although Aeromexico's sacked workers, thanks to redundancy pay of one year's salary and an economic boom , few of them were left unemployed for long. Employees who kept their jobs seem happy: none of the 12 privatised firms has experienced serious labour troubles.

Apart from the effect on workers, politicians considering further privatisations may also worry that much of the benefit will be collected by foreign investors. The Bank's sums show that a biggest slice of the cake did go to foreigners: in three of the sales, foreigners benefited more than all domestic groups combined.

By giving a huge bonus to foreigners investing in its first big privatisation, the Mexican government proved that it was sericus about privatisation and other market reforms.

The importante of foreign investors in Mexico's privatisations should not be underestimated, says the Bank. Though debt relief helped the Mexican economy to recover, in the past two years the value of debt relief to Mexico has been $8 billion. In the same period, privatisation attracted $15 billion of foreign capital to the country.

Despite however the advisability and necessity of privatisations a justifiable question is raised; why they aren't getting on?

The easy answer is known to everyone. It is because of the political cost which preserve the "status quo" and obstructs any beneficial changes.

Recent theories that excplain the essence of the phenomenon are based an the 3 following reasons:

- Pressure groups

Those who gain from an overdebted public company are well organised pressure group while those who lose are the unorganised general public.

The former feel that they have to spend time, money or- even some employees must be fired in order to forward the interests of the group and, by extenion, the interests of the company.

That's why they put great pressure on governments not to change the "status quo". They succeed because they are usually trade unionists with powerful connections in the governments.

On the contrary people who belong to the general public have realised the benefits which will arise from privatisations but they are not in the least willing to mobilise personally so as to forward the reform.

Consequently it is easy for someone to explain why parties and governments have a lot to lose (in terms of votes and money) because of those small groups, and very little to gain from the general public, provided that they do not upset the "status quo"

- Personal uncertainty

According to this theory even though it is certain that the maiority of people who are involved in a reform will gain, that doesn't mean that each one, individually, estimates that he will gain a profit.

- "Trenches war"

Supposing that an economy consists of two groups of people and that there is a reform which from the moment it is put into practice it will increase the income of both groups.

However, this reform has a certain cost which will be distributed between the two groups in such a way that the first group that will support the application of the reform will shoulder most of the responsibility.

Each group expects the other group to take the initiative. As a result the materialisation of the reform is delayed and both parties lose.

COMMENTS, PROSPECTS AND CONCLUSIONS

The privatisation of state-owned firms, all the range with economic reforms really does create wealth. As far as the methodology and the structural adjustment pragrammes are concerned, every country follows its own way of privatisation, and faces numerous and various problems in the effort to make them competitive and viable.

The importance of privatisation is clear from the note/warnig that the European Commission sent to Greece last April. It indicates the four conditions that should be fulfilled up to the end of 1998 in order to meet the economic criteria agreed in the Maastricht Treaty.

- to achieve inflation close to 3% at the end of 1998
- to widen the tax-payment basis
- to make the public sector more effective and
- to accelerate privatisations

- and secondly low budget deficits, low debt and low long-term interest rates.

Among Greek successful attempts at privatising, it should be mentioned the sale of 8% of the Greek Telecom in April 1996 and the impending sale of 10,7% in the following months. It should be olsa mentioned the privatisating of the Bank of Attica which sold shares basically to the 75.000 members of the Technical Chamber- of Greece (architects, civil engirieers, technical assistants e.t.c) as well as to the Local Authorities.

The progress of privatisation of the national telecoms in Europe in an interesting issue to look into.

The part privatisation of the French Telecom with the sale of 30% of the company, which was programmed for next May, will bring about $5 billion. It is estimated that for- this year it will have the higest turnover with $27 billion ond profits 2,6 billion.

At the same period (actually next June) theGeek Telecom is going to make its second step by selling a new packet of shares, collecting $ 1,1 billion and reducing the state owned percentage to 81%.

The Swedish telecom is going to sell its company Telia, the Italian Stet (through merger with Italian telecom) a part of $ 7,5 billion, the Swiss the 49% of the Swiss P.T.T., the Dutch the P.T.T. telocom and its subsidiary K.P.N. and the Portuguese a packet of $1,5 billion of the Portuguese telecom. Finally the German telecom with $ 44 billion annual sales became Europe's biggest telecom's group and recently offered 25% of the state controlled giant to the private investors.

At the same time the German government is willing to proceed with the full privatisation of Lufthansa in the near future selling 36% of its $2 billion worth of share capital. In Germany also, the Theuhandanstalt inheritor of East Germany's state-owned companies has been attacked for doing too little to promote small. business and for concentrating on the sale of big firms and has also been accused of ignoring the west entrepreneurs.

Ever since communism collapsed, there have been two broad schools of thought in Eastern Europe about how to escape the failure of Central planning. One is the group of reformers, such as Russia and secondly Polland and Bulgaria - called "Big Bankers", and the other, such as Czech Republic and Hungary, the "Gradualists". They both face a lot of difficult problems. But the latter have to to show great achievements and are considered pioners in the field of privatisation and this is the main reason that the two countries (Cz.Rep. and Hung.) and Polland are going to be the next members of E.U. All the countries, one after the other announce gigantic programmes of privatisation. It is noteworthy that 28 of 110 big public companies worldwide which are going to be privatised prmptly (banks, steel industries, oil refineries e.t.c.) are Chinese (announcement in "Money Show" Athens, 96).

In Britain where the privatisation programme started fifteen years ago, it has been widely acclaimed as an economic and political success of the first order. It has led to a massive expansion in the number of shareholders, and state involvement in inidustrilal decision making has been drastically reduced. Lately, the policy for firms with monopoly power has been seriously flawed. Important obstacles to competition have been left in place and, even where legal barriers to entry have been removed, mechanisms to guard against anticompetitive behaviour are often weak.

Taking into consideration all these factors, and with a number of policy objectives having been set forth by every member- of the Community, in relation to the programme, we can reach the -following conclusion:

.- many of the stated goals (e.g. wider share) are ownership, ways of supporting or subsidising firms to be sold or- rationalised) could better be attained by means of alternative policies devised, approved and directed by the E.U.

In other words, the Community's decisions could be focused on safety in work places, environmental preservation, consumer protection and related goals. The main method, therfore, is for the E.U. simply to determine managerial insentive structures, among factor that include the type of ownership, the degree of competition and the effectiveness of regulations.

In a world of uncertainty, in spite of a considerable interest shown by the E.U. members, asymetrical information and incomplete markets are two important and inter-related factors which affect negatively the realisation of privatisation.

Although privatisation as an idea may prove to have been a sheer utopia some years later, broadly speaking, it can be concluded that, as it is generally believed, theoretical analysis and empirical evidence support the view, that privatisation is currently the only remedy for the recovery of most of the economies. The privatisation may have blossomed only recently, but its roots go much deeper.