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AN INTRODUCTION TO/THE THEORY OF PRIVATIZATION

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I. INTRODUCTION

The concept of "privatization" has not been yet clarified in both theory and practice (Bailey, 1987; Kolderie, 1986; Kay and Thompson, 1986). As noted by R.W. Bailey, " one of the concepts in vogue is privatization. Although the concepts itself is unclear, it might be tentatively defined as a general effort to relieve the desincentives toward efficiency in public organizations by subjecting them to the incentives of the private market. There are in fact several different concepts of privatization" (Bailey, 1987; 138).

J.A. Kay and D.J. Thompson also agree with Bailey by noting "privatization is a term which is used to cover several distinct, and possibly alternative means of changing the relationships between the government and private sector" (Kay and Thompson, 1986; 18).

Privatization is frequently used referring to the sale of a publicly owned enterprise (POE)'s asset or shares to the individuals or a private firms. However, this definition gives only a narrow meaning of privatization. In broader meaning, it refers to restrict government's role and to put forward some methods or policies in order to strenghten free market economy. The former meaning of privatization, i.e. the sale of a POE's assets or shares to the private sector is mostly called "denationalization". These two terms -privatization and denationalization- are mostly confused and sometimes used interchangeably in the literature, As a matter of fact, denationalization is just one method of privatization. Government's role and functions can also be reduced or can be wholly terminated by implementing some other methods. In this Article, I shall explain first, the narrow meaning of privatization and after that, I shall explore the broad meaning of privatization, which encompasses the methods or policies, which aims to strengthen free market economy and to reduce the role of the government in the national economy.

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II. THE CONCEPT OF PRIVATIZATION

A. Narrow Meaning of Privatization: Denationalization

As noted already, denationalization refers to the sale of assets or shares of a publicly owned enterprises to the private sector. This definition, indeed is not complete at all. Because, it does not explain what shares or assets of a publicly owned enterprise must be transferred to the private sector. According to the definition given above, when a small part of shares/assets are sold to the private sector, it can be called as "denationalization". However, it is more appropriate to define denationalization as transferring at least 51 percent shares of a POE to the private sector. In this case, transfer of ownership (sale of shares) results in transfer of management and operation as well. However, full denationalization requires that all shares and assets of a POE must be sold to the private sector. *

There are mainly two important arguments in favor of denationalization: greater efficiency and wide spread private ownership (Bös, 1986). The former is the result of competition that denationalization brings. A competitive market creates both allocative and productive efficiency. Allocative efficiency means that economic resources can be used in the production of goods and services that people desire most. In other words, competition causes economic resources to flow their most highly valued uses.

On the other hand, productive efficiency refers to a situation, in which the total output of a firm is obtained at the lowest possible cost for economic resources. Putting in another way, competition forces firms to produce their output at the lowest possible cost. Hence, denationalization, it is alleged that, brings an end to X-inefficiencies in the public sector. X-inefficiency arises when economic resources are not use to their full capacity. This happens for publicly owned enterprises because some of them have monopolistic status and there is little entrepreneural incentive in them. Although a monopolistic

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(*) Definition of denationalization is not standard in the privatization literature. For example,E.S. Savaş gives a general definition: "The divestiture of the State Owned Enterprises (SOEs) and assets is called denationalization (Savaş, 1987; 241). M. Beesley and S. Littlechild give a different definition: "Denationalization is generally used to mean ... the subsequent sale of at least 50 percent of the shares to private share to private shareholders" (Beesley and Littlechild, 1983; 1).

publicly owned enterprise can gain from reducing its costs, there is no competitive pressure to force it to do so. Therefore, publicly owned enterprises are usually use resources wastefully and result is inefficiencies in the sectors or industries.

Denationalization indeed, is not easy to implement. Many problems as well as the obstacles may appear during the implementation process. The main problems can be summarized as follows:

1. Timing and Planning of the Denationalization Process:

Denationalization is a timing issue. It is necessary to make a time schedule in order to reach a successful outcome. For this reason, the following stages must be taken into consideration during the implementation process:

a. Promotion of the denationalization program and strategy to the public: Denationalization may bring reactions from various public groups. Some political parties, unions etc, may oppose this policy. It is quite difficult to achieve denationalization policy without public confidence and support. Mass media instruments (radio, TV, press etc) may play an important role to promote the objectives of the denationalization to the public. Especially, the public should be informed that denationalization does not mean "the sale of government" and therefore objectives must be clarified.

b. Preliminary Studies: In the second phase of the denationalization process, preliminary studies should be carried out in various sectors. Preliminary studies can be undertaken by a Committee including some members of the academia, capital market experts, central bank officials, union representatives, etc. The committee's final report should be presented to the public. The discussions and debates on final report would result in a better understanding of the denationalization program and help to solve the deficiencies of the strategy.

On the other hand, technical assistance concerning how to implement the sale process would be necessary for developing countries. Because those countries may not have adequate qualified staffs to carry out the denationalization program.

c. Legal framework: Following promotion efforts and preliminary

studies, denationalization law should be enacted, in which objectives, methods and implementation process should be clarified.

d. Implementing the program qradually: Instead of putting into effect a comprehensive program and implementing it fast, the program should be carried out gradually. For example, instead of selling a publicly owned enterprise wholly, the sale process could be implemented gradually. Moreover, a small amount of equity stocks would be sold first.

2. Priority Problem:

Which publicly owned enterprises should be privatized first? In other words, which public economic enterprise's stocks should be offered for sale to the public first? Furthermore, to whom should the stocks be offered during the sale process? These questions deal with the problems concerning priority. The first problem is determining the publicly owned enterprise, whose assets or shares would be sold first. Determining the groups, the assets or equity stock will be offered is another problem. These issues -which could be called "priority problem"- are important for the successful implementation. Let's go a step further and explore these issues in detail.

Each POE employs somehow different functions and active in different sectors. Some of them work within the same rules and principles as private enterprises.Some of them, have natural monopoly characteristics. Therefore, it is important to find some rational criteria to determine the POE, that will be privatized first. For example, a criteria would be that POE which have economies of scale and natural monopoly characteristics can be considered for privazation last. The rationale for this is that a competitive environment is necessary before implementation. Another criteria whould be that a POE, which has a bad financial status should be considered for privatization last. Beesley and Littlechild who explored the priority problem in their article concluded: "Priority should be given to privatizing those industries where consumer benefits are likely to be greatest. Potential benefits will depend upon the size of the industry whether it has already received attention, and whether competition rather than monopoly is likely to ensue" (Beesley and Littlechild, 1983; 18).

In their study, Beesley and Littlechild analyzed industries in Britain and in accordance with three criteria in an aim to determine the priority. The criteria were:

-Criterion of size: According to them, *ceteris paribus* a larger industry offers potential scope for savings. For example, an industry with a turnover of 2 billion Pounds offers twice the potential benefit of an industry with a turnover of 1 billion Pounds. In brief,the larger industry should be considered for denationalization first.

-Criterion of changing workforce: According to this criterion, the nationalized industry, in which the laying-off is higher than the others should be considered for the sale last.

-Criterion of competition: Beesley and Littlechild argues that the promotion of competition -by removing artificial restrictions on entry, making resources equally available to potential entrants, and restructuring the existing industries- is the most effective means of maximizing consumer benefits and curbing monopoly power (Beesley and Littlechild, 1983; 18). According to them, benefits to consumer are likely to be greater insofar as competition rather than monopoly is likely to predominate in industry. In sum, nationalized industries, which are in monopolistic status should be taken into consideration last.

The second problem concerning priority is determining the groups the equity stocks would be offered to first. First, it is necessary to answer this question: Who are the potential buyers? To whom equity stocks could be offered? It should be noted that individuals, private employees, farmers, private firms, and foreign companies operating within country or abroad are the major potential buyers.

It has been alleged that employees working in the publicly owned enterprise, subject to denationalization, should receive preferential treatment. Under an Employee Stock Ownership Plan (ESOP), -which we will explore in some shares could be offered to those employees. Later, other public employees, workers, retired people could be given priority for sale. It has been claimed that widespread ownership and and economic democracy can be achieved through such a policy. Since it is a fact that unions may oppose denationalization in general, such policy could soften the resistance by public employee unions. Another problem is whether there should be any sale to foreigners. Processing sales to foreigners could be carried out within a domestic capital market or in an international stock exchange market, such as New York , Tokyo, London etc. However, equity sale to foreigners may constitute a serious problem in developing countries.

3. Other Problems:

Some other problems may arise during the implementation of the denationalization program. The most noteworthy of these may be grouped as follows:

-Appraising the value of the assets of the publicly owned enterprise subject to sale is not an easy task to do.

-Some problems may arise during the sale of shares of the POEs. The important problems are how the value of equity stocks will be determined, whether domestic capital market is able to absorb the sale of equity stocks, what the expectations concerning demand and supply in capital market are and what measures should be taken in order that equity stocks not be collected in one hand or several hands.

As already noted, denationalization is not easy to implement. Besides the problems that we have just summarized, there are also some obstacles for implementation in developing countries. As a matter of fact, the questions are: "how relevant is the privatization of POE in developing countries?" Can denationalization be implemented in those countries successfully? The traditional economic development theories suggest that government interference is necessary as a result of market failure in developing countries. They argue that development is expected to play tha major role in developing countries in order to achieve economic development and growth. However, recent developments in the economic theory claim that governmental activities, even in developing countries, should be reduced as much as possible.

On the other hand, the major barriers to implement denationalization successfully in those countries are summarized below:

-Political Instability and Uncertainty: It is a fact that many developing countries suffer instability and uncertainty in politics. The notion of democracy and freedom has not yet been institutionalized in those countries. Political instability is an important barrier to implement a privatization program successfully. As Roger Leeds noted: "For a variety of reasons... the achievement of a set of privatization objectives is extraordinarily difficult, and in the best of circumstances wil take many years to implement. It is imperative that politicial

leadership have the time to build a solid foundation of support for the privatization program both within the government itself and in the electorate. Thus, a prerequisite for the implementation of a comprehensive privatization program is the period of political stability and continuity" (Leeds, 1988; 169).

-Economic Instability and Uncertainty: Bad politics puts the economy in a worse situation even though the implemented economic policy is correct. Economists increasingly believe that the politician are the major source of economic problems. Especially Public Choice economists argue that shortsighted and self-interest seeking politicians create new economic problems in the society. Economic instability and uncertainty are mostly the result of politicial instability. Within an unstable macroeconomic environment, it is difficult to implement a privatization program successfully.

Leeds notes that "there is an inextricable linkage between the prospects for a successful privatization program and the attractiveness of the macro economic environment to the private sector generally. A need exists, for price stability, positive but not exorbitant real interest rates, a policy framework that encourages competition and realistic exchange rates. If these ingredients are absent, or their future in doubt, privatization plans will be more difficult to implement" (Leeds, 1988; 170). In brief, privatization must take place within an optimal macroeconomic environment.

-Weak and Underdeveloped Capital Markets: Capital markets in developing countries either are not developed or non-existent. It is quite difficult to sell equity stocks of POEs in domestic capital market in developing countries. This is because potential buyers are very few. The income of wage-earners are very low and this keeps them from buying equity stocks. As a matter of fact, development of a formal indigenous capital market is not an automatic or simple process. It is necessary to create a legal capital market before implementation of denationalization. Development of a domestic capital market requires certain policies be put forward. Government should give an end to interest and dividend controls. A legal and administrative framework should be established to guarantee investor protection. A system of corporate law with standards for accounting and disclosure should be enacted. Along with these steps, it is important to train accountants and auditors; on the other hand, the government should stop tax discrimination againts corporations. Of course, some incentives are also necessary to encourage institutional investment and opening markets to foreign

capital. In brief, development of a capital market is likely to be a slow process. However, the above and some other measures should be gradually implemented (Alyen, 1987; 25).

In the last decade, denationalization has been a popular movement throught the world. Not only developed, but also developing countries have explored efforts to set up an environment ni which denationalization can be implemented successfully. Some international organizations, World Bank, IMF, International Development Agency, Asian Development Bank etc have been supporting developing countries both financially and technically. World Bank's affiliate, the International Finance Corporation (IFC) is especially active for that purpose. IFC helps those countries for the preparation of the privatization strategy as well as it provides advice and assistance to governments in fostering capital markets, attracting private investment, transferring technology and improving the regulatory environment (Shirley, 1988; 35).

B.Broad Meaning of Privatization

Denationalization is only one form of privatization. In broad meaning, privatization refers to the transfer of functions previously performed exclusively by the public sector, to the private sector. In other words, privatization is an umbrella term, which encompasses all methods or policies implemented to increase the role of market forces within the national economy. In this context, the concept of privatization covers several arrangements to deliver goods and services by private sector. In the following, these arrangements are explored.

1. Contracting-Out

Under this arrangement, the government contracts out with the for-profit as well as not-for-profit organizations for the delivery of goods and services. In other words, the government purchases services from a private firm or a non-profit organization. Contracting- out is common especially in such services as public works and transportation, public safety services, health and human services, parks and recreations services etc. Especially municipal governments are interested in contracting such goods and services with private firms, inreasingly. At the local level, refuse collection and cleaning are very common practices of contracting-out in many countries. In addition to this, roads, schools and government offices are generally constructed for governments by private

contractors under contractual arrangements and pencils, desks, fire hoses,, uniforms, food (for pupils, patients, and prisoners), ferry boats, automobiles, guns, garbage trucks and computers are bought from private vendors. Furthermore, governments -both central governmant and local government- contract-out for a wide varietv of services; grounds maintenance, custodial functions, cafeterias, secreterial and clerical work, libraries, loundries, computer centers, microfilming, photography, printing, claims processing, transportation and so on (Savaş, 1987; 69).

A study based on a survey that included 1780 cities and counties in the USA in 1982 showed that about one third of the services provided were contracted out to private firms and non-profit organizations. The percentage was high especially for private firms. Contracting-out was most common for commercial and solid waste collection in the category of public works and transportation. The percentage was 44 for commercial waste collection and 35 for the solid waste collection in public safety services. On the other hand, about 80 percent of vehicle towing and storage services were contracted-out to private firms. Cities and counties contracted-out approximately 35 percent of the day-care centers, and about 30 percent of the hospital operation and management (Valente and Manchester, 1984; xv).

Now, let's analyze the benefits and drawbacks of the contracting-out system. There are many arguments in favor of contracting-out for public goods and services. But also, there are some disadvantages of the contracting-out system. Advocates of this method claim that contracting-out has the following superiorities (Savaş, 1987; 105-110; Hartley, 1986; De Hoog, 1984, 1-16; Moore, 1987; Ascher, 1987).

(i) Contracting-out is efficient and effective, because it fosters and initiates competition. The competition among firms bidding for a service contract drives the cost down. Empirical studies clearly prove that the cost of the services provided by government is much higher than when the services is provided by private contractors.

(ii) Contracting-out also provides better management than the public management. Because decision making under contracting-out is directly related to the costs and benefits. In other words, this method fosters good management because the cost of the service is usually obscured.

(iii) Contracting-out would help to limit the size of government at least in terms of the number of employees. On the other hand, it is a fact that overstaffing is common in publicly owned enterprises.

(iv) Contracting-out can help to reduce dependence on a government monopoly which causes X-inefficiencies and ineffectiveness in services.

(v) Under a contracting-out method, contractors can be penalized if their service is of poor quality and unsatisfactory. Contractors must provide good services in order to renew the contract.

(vi) Contracting-out is more flexible in terms of responding to the needs of citizens. Greater flexibility in the use of personnel and equipment would be achieved for short term projects, part-time work etc. Whereas bureaucratic formalities are said to be very common when the service is delivered by government. Less tolerance and strict hierarchy in bureaucracy are the reasons of the inflexibility in publicly provided services.

On the other hand, opponents of contracting-out method argue that this system mainly has the following deficiencies:

(i) Corruption may be widespread in the process awarding contracts to the individuals or private firms.

(ii) Contracting may limit the flexibility of government in response to emergencies because contractors are liable to default and go bankrupt in their activities.

(iii) Competitive tendering is not costless; there are costs to the state authority decreases monitoring and enforcing contracts.

(iv) Contractors may hire inexperienced transient personnel at low wages and this increases the quality of the service.

(v) Contracting-out involves laying off public employees. As a result of this, government has to pay unemployment compensation to the laid off public employees.

Although, there are some drawbacks to the contracting-out system, it has been alleged that, they can be eliminated by taking some precautionary measures. For example, a genuine rivalry is important for improving efficiency. There is a danger that competition will be restricted to members of esteblished trade associations, with the possibility that collusion may result in private monopolies replacing state monopolies. On the other hand, regular re-contracting should also be required, so that competition occurs. Regular re-contracting also forces contractors to work efficiently so they can renew the contract (Hartley, 1986). Long-term contracting also should be avoided to obtain maximum cost savings, bidding requests should be publicized as broadly as possible. And finally, upon completion of the bidding process, performance of the contractor should be monitorad and evaluated regularly.

2. Franchising

Under a franchise agreement, the government gives a special monopoly privilege to a private firm to produce and supply some part of a particular service. Besides this exclusive right given to a private firm, the government may also award multiple franchises. Mass transit is an example of franchising. The government either makes a contract with a single private firm or several firms to provide the service. The former is an " exclusive franchise " and the latter is called "multiple franchise". It should be pointed out that a franchise contract usually involves a price resolution right of government.

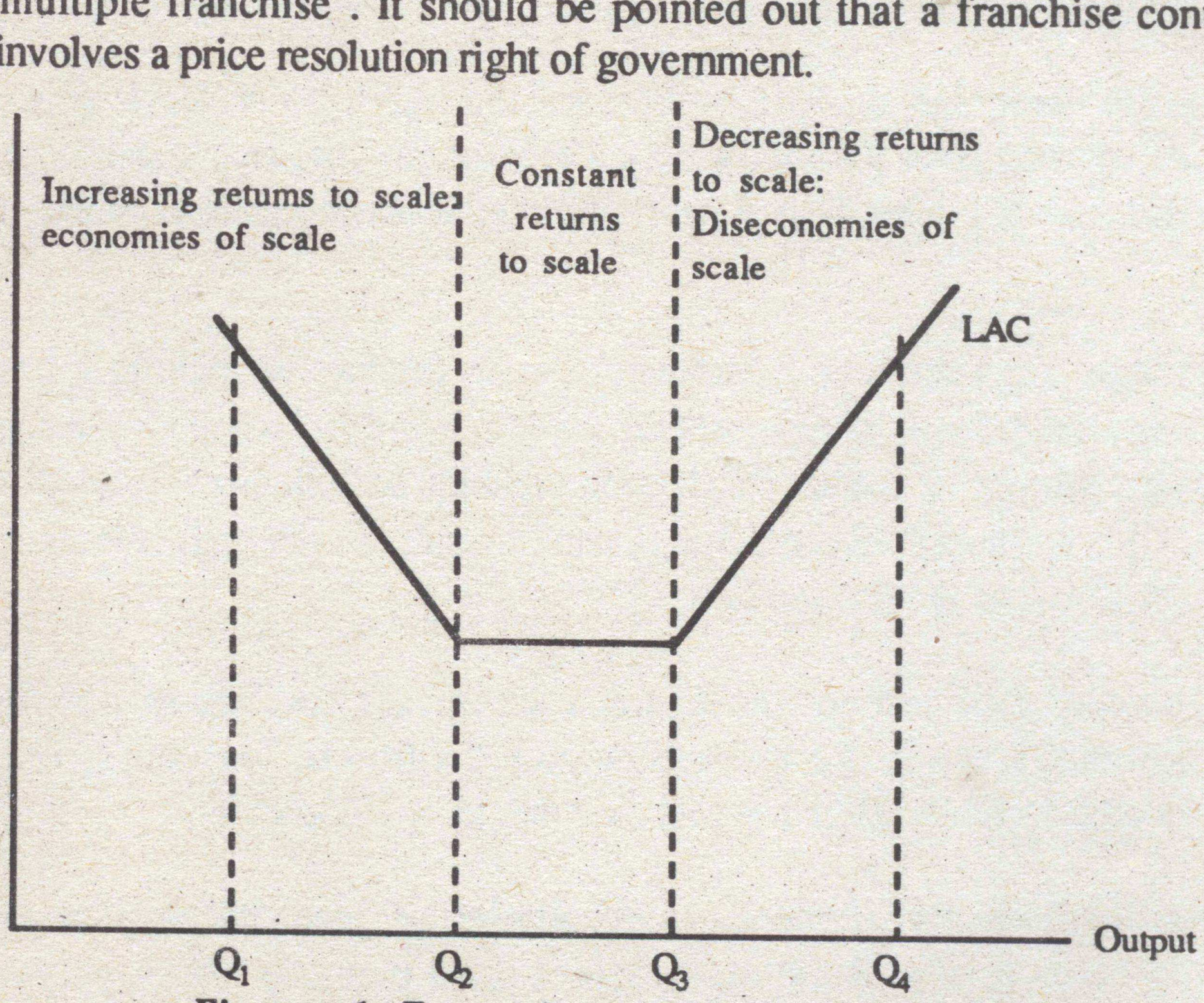


Figure: 1 Economies and Diseconomies of Scale

Franchising method is especially common for the delivery of toll goods,which have natural monopoly characteristics. In the macroeconomic theory, it is argued that a firm would become a " natural monopoly" in time, if there are economies of scale in industry. In other words, natural monopoly exists if the avarage cost of producing a product constantly decreases while output is increased. Economies of scale can be understood best via the Figure 1.

LAC is the long-run average cost curve, which was derived from short run average cust curves. The long-run average cost curve declines until Q2 level and stays constant until Q3 level and then increases. The average cost first declines , because economies of scale reign until Q2 level of output. The area between the Q2 output level is called " increasing returns to scale". Herein, the important question is "why does long-run average cost curve first decline, then stay constant and after that increase?" The reasons why the long-run unit cost of production fall as output increases are due to several factors (Ekelund and Tollison, 1986; 171):

- A larger operation means more specialized processes are possible in the firm. Workers can concentrate and become more proficient at narrowly defined tasks.

- As the operation enlarges workers and managers gain valuable experience in production processes. In other words, since workers and managers of a larger firm produce more output, they acquire more experience can lead to lower unit costs.

- Large firms can take advantage of mass production techniques, which require large setup costs. Setup costs are more economical when they are spread over a large amount of output. Production techniques such as the assembly line used by large automobile manufacturers would result in very high unit costs used by small producer of specialized cars.

As understood earlier, the figure, after Q3, the LAC curve rises due to diseconomies of scale. In this range of outputs, the firm has become too large to be controlled effectively. Here the cost rises due to inefficiencies.

As noted earlier, if there are economies of scale industry, a natural monopoly exists finally. Because, if there is more than one firm supplying the

total market, each firm must be producing, at an average cost level that would exist if only one firm supplied the entire market. As a result of this, each firm increase its market share and reduce its average costs At last, a hard competition would occur among firms and finally, there will be one firm -that is a natural monopolist- to dominate the market (Hange, 1985; 9).

Economies of scale are most common for such goods as power supply, gas and water distribution, communications services, broadcasting TV, railways, etc. For many years, economists -especially theoretical welfare economists- argued that these goods and services ought to be provided by public monopolist, who tends to increase the prices by limiting the production.

However, in recent years, it has been argued that these goods and services can be privatized under a franchising agreement. It is possible to obtain maximum benefit via a competitive bidding process. Some economists argue that franchising is an effective solution for the privatization of natural monopolies (See Demsets, 1968; Hanke, 1985; Domberger, 1985).

On the other hand, opponents of this method argue that franchising is not costless. Some problems may occur during the operating phase of a franchise. Franchises typically last for a considerable length of time in some cases. During this period, significant changes would happen in consumer choices, costs and production technologies. These factors require that original bidding contract ought to be properly evaluated. Moreover, the government needs to monitor the activities of the franchise carefully and regularly.

Another problem concerning the operating phase of a franchise occurs toward the end of the contract. It is argued, when there is a chance that the franchisee may underinvest in fixed assets and reduce maintenance expenditures (Hanke, 1985; 13).

3. Deregulation and Decontrol

Deregulation and decontrol are two important policies to strenghten the free market economy.The former means termination of all kind of " public regulations" within various sectors or industries. The latter explains that all type of " public controls" be abolished. Both " public regulation" and " public control" are broad concepts in the sense that they define the various ways, in which government may intervene directly to the economic agents. Some of these

regulations and controls require economic agents " to do", or "not to do" or " get permission to do" some activities. Public regulations and controls would be either " legal-administrative" or " economic". Some examples for legal and administrative regulations and controls are: traffic regulation, taxation, conscription etc. Economic regulations include such practices carried out by the government as awarding occupational licensure, patent, franchise, tariffs and quotas for international trade etc. All kinds of direct intervention in the natural functioning of supply and demand, such as, price, rent, interest, wage control etc. are aslo examples for " economic" controls within the national economy. The types of public regulations and controls are shown on Table 1.

Table 1: Type of Public Regulation and Public Control Public

Public Regulation	
Legal and Administrative Regulation	Economic Regulation
- Taxation	- Legal barriers to entry to the market (public monopoly, franchise, occupational licensure and patent)
- Conscription	
- Traffic Regulation (compulsory seat belt)	- Legal barriers to international trade (tariffs, quotas etc)
- Compulsory elemantary education	- Subsidies of public economic enterprises
- Prohibition of using drugs	- Compensating "duty loss" of public enterprises
- Standardization in products	
- Environmental regulation	- Rescue operation for private firms in bankruptcy
Public Control	
Legal and Administrative Control	Economic Control
- Auditing of taxpayers	- Price control
- Traffic control	- Wage control
- Environmental control	- Rent control
- Health control	- Interest rate control (usuary law)
	- Exchange rate control

4. User Charges

Some public goods and services are supplied free of charge and financed by general fund revenues. In fact. this is something of a requirement because of the "indivisibility" and " non-exclusion" characteristics of some goods and services. National defense and judiciary are two typical examples of these kinds of services. However, there are some other types of public goods and services, whose benefits can easily be divided and whose users can be excluded from its comsumption. Higher education, health services, cable TV, electric power and mass transit are the main examples. These types of goods and services can be either provided free of charge and financed by taxes or by the imposition of a fee or user charge to the individuals who receive benefits.

User charges can be imposed on exclusive club goods, which includes "toll" and " quasi-public" goods. These goods have both exclusion and joint consumption features. The main purpose of the user charges, or fees, is to reveal the true cost of the services provided. In other words, those who want to get benefit from some particular services should contributet to their full cost. Here me should note that user charges are an application of the " Benefit Approach of Taxation". Only those, who receive benefits from public goods and services are required to pay or share its cost.

User charges apply to a wide range of goods and services that are provided by local govarnment in particular. Public utilities usually charge a fee to local inhabitants for their use of goods. Examples of services financed by user charges include swimming pools, parks, museums, hospitals, electricity, gas and water supply, education etc.

Some conditions are necessary for a successful implementation of user charges (Wagner, 1973; 128). First, the goods and services must be divisible among the users. That is, different people must be able to consume different amounts of the service. The user pricing of " divisible" goods and services thus stands in contrast to the tax pricing of indivisible goods and services. In brief, user charges should be implemented to the consumption of the divisible goods and services.An example is the water,gas and electricity consumption of local inhabitant. It is feasible to impose user charges for each consumer according to their consumption of water, gas and electricity.

Additionally, administration costs must be relatively low. Following the above example, it can be said that, it is relatively inexpensive to monitor an inhabitant's water consumption and to impose user charges accordingly. However, it is relatively expensive to monitor an individual's consumption of highway services, although it is divisible.The cost of administering the user charges of tolls for highways would be high.

There are some important benefits that can be obtained throught the implementation of the user charges. When user charges are substituted for general fund financing, taxes, it is possible to get immediate and clear responses to the price changes. Hence, producer's output choices transmit stronger signals concerning desired rates of supply. Consumer purchases convey information about relative preferences, and this information is an ingredient in the process by which resources become allocated to more highly valued uses. If a single service is sold via user charges, the information generated by consumer preferences is clear. Thus, the earning of a profit indicates that a service is valued more highly than other services. However, if several services are sold jointly through a general budget, information concerning profit or loss reveals little about which services to expand or contract. Thus, price is a less sensitive conveyor of information when several prices are jointly supplied by a general budget that when a single service is supplied by user chadges (Wagner, 1973; 132).

Note that, user charges are not the same thing as " earmarked taxes". Earmarking, is method by which specific government revenues are designated or dedicated to the financing of specific government expenditures (see: Buchanan, 1972). Earmarking is also and extension and application of the benefit approach of taxation, which requires that government should directly tax the users of public goods and services. People who obtain benefits from public schools, for examples, are charged a tax in the form of a " tuiton" . People who use public buses and subways for transportation are required to pay a tax in the form of a " fare" . Public utilities also charge fees for their services, such as power, water gas supply. Another common example is the toll on roads. Highway users can be taxed directly for their use of the roed in the form of a " toll" .

In sum, earmarked revenues may consist of not only tax but also non-tax revenues. User charges are the main source of non-tax revenues.

5. Grant System

Grants or subsidies are financial or in-kind contributions to individuals or private firms by government. In other words, grants are awarded to encourage the production of particular classes or producers. The grant may bein the form of a cash subsidy, tax incentives, low cost laons and loan guarantees (See Table 2).

Subsidies are used most frequently to provide merit goods. Profit as well as non-profit organizations are generally the recipients of subsidies. For example, government may award a cash subsidy to a non-profit organization to encourage their activity in the field of culture or the performing arts, such as the theater, opera, symphony orchestra etc. The primary benefit of using subsidies is that it can be an inexpensive way to encourage private firms to provide services that are in the public interest and that could not be provided as inexpensively or as well by government (Valente, Manchester, 1984; xviii).

6.Voucher System

The voucher system is designed to encourage the consumption of particular goods and services by a particular class of consumers. This method can be implemented in various areas. Food stamps, tuition, medicaid or medicare, child-care, housing and transportation vouchers are some of the tools used to implement this system. A Housing Voucher, for example, can be used in lieu of constructing buildings to house public servants. Government might give a housing voucher to those who need housing. This voucher allows a person/family to find public housing, for which the government will pay all or part of the rental cost. Another example would be mass transit system by government, that service can be supplied by private sector and government will provide a transportation voucher to those who are handicapped, elderly, or poor. As a result, they use the service free of charge. Another example is a medicare or medicaid card which makes it possible for the poor to obtain medical services from private hospitals. In this case, government does not prefer to supply services via public hospitals (see Table 3).

Table 2 :Grant System

Type of Grant	Definition
1. Grant in the form of Cash Subsidy	Government offers money to a particular type of producer or supplier of goods and services. The most important feature of this form of grant is that recipient of the subsidy is not required to pay the money back to the government. There is also no interest payment requirement.
2. Grant in the form of Cash Subsidy	Government provides low cost loans, in other words, " subsidized credit" to many different type of borrowers. Agricultural credit to farmers is a common example of direct loans. The primary type of a direct loan is the disbursement of funds by a single government agency or via different departments or ministeries. Under the terms of a loan contract, the barrower agrees to repay the loan principal to the government with or without interest. Direct loans are financed from a variety of sources, including repayment of previous loans, appropriated funds derived from taxation and borrowings.
3. Grant in the form of Direct Loans	Through loan guarantees, government guarantees the payment of the principal and the interest in whole or in part in the event of borrower default. Note that, under this type of grant, government itself does not extend credits or loans to the individuals or the businesses. The loan is obtained from private lenders. Loan guarantees are contingent liabilities of the government. In the case of default by borrowers, government makes payment. Consequentlv, a loan guarantee transfers some or all of the default risk of the loan from the private lender to the government.
4. Grant in the form Tax Incentives	Tax incentives take for many forms: 1. Low rate of taxes for particular types of activities. 2. Through an Investment Credit System, government permits individuals and private firms to deduct each year from their tax liability a certain amount/percent of their total current investment outlays on equipment. Thus, in effect, the government pays a subsidy on investmens by giving back to firms a fraction of the investment cost through this special tax credit. 3 Accelerated Depreciation Range (ADR) System: Depreciation, the cost of the deterioration of physical capital, can be subtracted from the gross revenues of taxpayers. Sometimes, as an incentive, government may allow individuals and businesses to write off equipment quickly. 4. Tax Deduction: Most tax systems allow deductions of several items from adjusted gross income. Contributions to the philantropic organizations, casualty losses, such as losses from fire and theft and some medical expenses. 5. Tax Exemptions: There are several kinds of tax exemptions. For example, the several tax system may allow a certain amount of money to be subtracted from adjusted gross income by taking into consideration the marital status of taxpayer, the number of dependents, and some exemptions for the elderly, blind and handicapped.
5.Grant in the form of Awarding	Government may award free lands to individual and private businesses with a requirement that they would carry out a certain type of activity. For example, in order to encourage private Universities, government may award free lands to profit or non-profit organizations. In addition, government may undertake the infrastructure investment.

A voucher system works best when the following conditions prevail (Bridge, 1977; 56-57) :

1 A voucher system should provide an incentive for individuals to shop wisely. The incentive can be created in two ways. If the value of the voucher is fixed, but wants are infinite, voucher holders will have an incentive to shop for the best values. If the voucher does not cover the full costs of services, recipients must use their own funds to fil the gap. This provides an incentive to shop wisely.

2. Individuals should be well informed about market conditions including the location, quality and cost of the goods and services they want.

3. There should be many competing suppliers of the goods and services that people want.

4. The quality of the goods and services should be easily measured.

5. The product or service subject to a voucher system should be relatively inexpensive and purchased frequently. Frequently purchases permit the voucher holder to learn by experience. Shoppers can switch brands or suppliers from time to time in order to compare the quality of different alternatives. Food purchase, for example, provide continuous opportunities for learning.

A voucher system like a grant system is especially suitable for providing merit goods. These goods result due to imperfect knowledge and information, on the part of individuals who consume too little. In this case, government can intervene in the market to encourage consumption by awarding " voucher" to consumers and/or encourage production by awarding " subsidies" to producers.

Finally, it should be pointed out that a voucher system is not easy to implement. It is difficult to determine the individuals or groups to whom vouchers would be offered. Among the various recipients of the vouchers, poor people will probably constitute a great percentage. However, a question arises here: Who are the poor? Even though the poor, or low income families can be determined via the poverty threshold income level, it is not quite simple. Beyond that, several kinds of political corruption and " transfer seeking" activities can emerge in the process of awarding vouchers to the poor.

Table 3: Voucher System

Type of Voucher	Definition
1. Tuition Voucher	Government gives tuition voucher to poor people for their education at the level of elementary, secondary or high school. For higher education government creates scholarship/fellowship programs to be awarded in a competitive environment. In stead of providing education via government school, government aims to shift the demand to the private schools.
2. Medicare/ Medicaid Vouvher	Government gives medicare/medicaid voucher, for example, to public employees for their use of private hospitals. In this case, instead of providing health services via public hospitals free of charge or in return for a little fee medicare/medicaid can be given to parents working in government offices or some poor people. Holder of medicare/medicaid vouchers get services from private hospitals.
3. Child Care Voucher	Instead of opening government owned and operated day-care centers, government may want to award a child-care vocuher for the potential recipients of the service and thus, they obtain services from private day-care centers.
4. Housing Voucher	Government sometimes constructs houses and rents them to certain public employees. Instead of doing this, government may also award a housing voucher to public employees. Thus the demand is shifted to the private sector.
5. Transportation Voucher	In lieu of provision of mass transit services municipalities, the service can be carried out by private firms. Government may award a transportation voucher to poor, handicapped or elderly people for their free uses of, for example, private busses.
6. Food Voucher	Government sometimes award food stamps to poor people for their purchase of some foodstuffs. Here, government quits distribution of some foodstuffs to poor people via government agencies. Holder of food voucher get foodstuffs from private sector.
7. Clothing Voucher	Government sometimes gives some clothing (such as shirts, suit, shoes, coat etc) to public employees free of charge. Instead of doing this, government can give a clothing voucher to the aimed public employees and thus, they purchase the clothes from private shops and stores.

7. Management Contract

Government may sometimes retain full ownership of public economic enterprises and/or other public facilities, but transfer its management to a private firm. The rationale for this is that public economic enterprises and public facilities are said to be managed less effectively. Management usually works as follows (Hegstad and Newport, 1987) :

1. Government retains full ownership of the public enterprise and/or public facility.

2. Government provides the necessary fund to manager to run the enterprise and/or facility.

3. The manager provides an integrated package of managerial skills necessary to develope, operate or rehabilitate the public enterprise and/or facilities* .

4. Manager sometimes owns some equity stocks of the public economic enterprises. This motivates manager run the PEE more effectively.

The retionale for management contract can be summed up as follows: Management contract would be the first step to achieving privatized ownership. In other words, management contract is more important when government wants to transfer the ownership to a private firm, but also wants to return the public economic enterprise (PEE) to a reasonable level of performance in order to attract private investors. It is a fact that PEEs are operated within financial and management troubles, therefore the productivity is very low in those enterprises. In this context, management contract is a rational solution to rehabilitate the enterprise and prepare it for full divestiture.

(*) Note that " Management Contract" is different from a "Consulting Contract" .As a matter of fact, management contract is more comprehensive and complex process than consultancy. Through a consulting contract, government receives only consultant services and the advisers or consultants are not furnished with the management authority. Day-to-day operations are still carried out by public officials and workers under a consulting agreement.

Secondly, government may want to undertake a rehabilitation effort, the benefits of which can only be derived with improved managerial efficiency. In this case, the purpose of the government is not to sell enterprise, rather its purpose is to address managerial, technical and financial difficulties through an injection of advanced management and other skills.

Third, it would be necessary to improve management capacity, system and expertise in the enterprise in order to reach a new and advanced technology.

Management contract is common in such areas as the hotel industry, hospitals, homes for aged, day-care centers, city bus and subway operation and some industries such as steel, fertilizier, chemical, textile etc.

Management contract has become very popular in many developing countries in the last two decades.It has been an important vehicle for transferring managerial,corporate and technological skills to public enterprises at all stages of growth and development. Some developing countries in Africa, Middle East, South East Asia and Latin America have been implementing this system widely. Management contract has been particularly widespread in the private sector of industrialized countries.

There are many justifications for and criticisms of management contract. From the standpoint of government, the most important benefit is that management contract allows government to retain ownership. Moreover, government solves enterprises' managerial, and technical expertise through a management contract. Another benefit is that technology transfer can be obtained by means of management contract. Furthermore, improved managerial and technical expertise increases the profit potential in the long-run.

From the standpoint of the manager, management contract allows a manager to receive an agreed income flow through a management fee and probably can earn additional bonuses based upon such variables as performance, sales or other agreed criteria. A manager may also gain the market share in other countries, especially those, in which direct foreign investment is welcomed.

There are also some disadvantages of management contract. For government, the most important drawback is that government has to give up control of day-to-day management and operation, although ultimate policy and

budgetary control are normally retained. Second government has to pay agreed management fee even if the enterprise does not make profit. Third, government remains responsible for all operating expenses and debt payments. Fourth, management contracts are time-consuming and can be expensive to implement, both absolutely and relative to other options.

From the standpoint of a management company, the first disadvantage is that financial risk is low in comparison with that under leased on joint venture operations.If the business is operating below its break-even point, the owner, not the manager must make up the cash deficits. However, if the business is operating above its break-even point, the management company may realise a lower return than it would under alternative arrangements. In effect, the management company gives up some potential profit for less risk and investment. Secondly, the manager is reliant on the owner's financial strength. A manager has minimal influence over decision regarding the sale or disposition of the business and or major policy decision affecting the direction of the enterprise, unless the management company has equity in the enterprise. Another drawbacks is that owner may have the right to terminate the contract earlier. A manager also has no ability to deny the intervention of "external" factors such as political and bureaucratic interference and/or government policies.

Finally there are some conditions for the successful implementation of a management contract system:

- The existence of a supportive external policy environment. Management expertise cannot be effective if severe price/tariff distortions or adverse government policies and interference hamper the promotion of efficient enterprises.

- Public economic enterprise must be viable -no amount of managerial skill can convert an ill-conceived project or unmarketable enterprise into a successful one.

- Government must be conceived that the management contract route is the optimum alternative and must be fully supportive of it.

- Government must give the manager sufficient management control and the authority to manage the enterprise in order to achieve the objective of the contract (Hegstad and Newport, 1987;4).

Table 4: The Benefits and Drawbacks of Management Contract

	Benefits	Drawbacks
Owner	- Allows ownership retention	-Loss of day-to-day operational control
	- Provides managerial and technical expertise	-Management fee generally payable regardless of profitability.
	- Overall policy direction maintained	-Owner remains responsible for all operating expenses and debt servicing.
	- Technology transfer which includes training and transfer of management and corporate skills.	-More expensive than other options.
	- Access to new markets and international financing.	-Time consuming and complex to structure properly.
	- Greater profit potential in the long run due to improved management and technical efficiency.	-Possible drain on enterprises' foreign exchance supplies.
Manager	- Agreed income flow via management fees.	-Finanial risk if prevented from earning performance payments.
	- Compensation for service, usually with no equity risk.	-Dependence on owner's financial strength.
	- Means of establishing new markets .	-Lack of control in policy areas.
	- Maintain presence in foreign market, especially in countries inhos pitable to direct investment.	-Lack of control over "external"factors such as government interference, policies, etc.
	- Possible procurement raw material and product tie-ins.	-Risk of early contract termination.
	- Device to adopt commercial strategies to changes in international market place.	

Source: Hegstad and Newport, 1987; 22.

8. Leasing

Another method of privatization is called "leasing", which is similar to the franchising and contracting-out method in the sense that both the management and operation are transferred to the private sector.However, leasing is a different arrangement from franchising and contracting-out. In a franchising agreement, the franchisee has a special privilege or right to produce and supply the service. For a certain period of time, the franchisee manages and operates the service in accordance with the rules determined in the franchising contract. Ownership is retained by government under this arrangement. Under a contracting-out arrangement, a private firm manages and operates some services, like solid waste collection and disposal, by using its own employees as well as its own materials. tools etc. The difference between a contracting-out and leasing agreement is follows: Suppose a local government rents its trucks to a private firm for the solid waste collection in the city. In this case, management and operation are carried out by the private firm. This represents an example of "leasing". On the other hand, solid waste collection can also be provided by private firm's own trucks and employees. In this case, government makes a contract with a private firm for the delivery of goods and services. This arrangement constitutes an example of contracting-out.

Table: 5 below shown the basic differences among denationalization, contracting-out, franchising, management contract and leasing arrangement.

9. Joint Venture

As noted earlier, privatization encompasses all practices aiming to reduce the role and scope of the public sector and to increase private sector activities in the national economy. Within this framework, joint venture can be considered a privatization method. Joint venture is a partnership of two or more firms. Joint venture firms, that is, partners agree to a common business target and to share accruing profits, losses and any other risks. Joint venture can be established in various fields such as; general trade, commodity exchance, technology development and exchange, consultancy services, training, product development, oil, gas and mineral exploration, international merketing, construction etc. However, industrial joint venture is the most common type of partnership (Jafri, 1987;1).

Table: 5
Consequences of Denationalization, Contracting-Out, Franchising, Management Contract and Leasing Methods

Privatization Method	The Consequences of Implementation
DENATIONALIZATION	TRANSFER OF OWNERSHIP OF A PUBLICLY OWNED ENTERPRISE 1. Partial denationalization without management transfer:Up to 50 percent of the shares/assets of a POE are sold. 2.Partial denationalization with the management transfer: More than 50 percent of the shares/assets -but not the whole- are sold to private fim. 3. Full denationalization:All the shares/assets of a POE are sold. Management and operation automatically passes to the private firm.
CONTRACTING-OUT	1. TRANSFER OF MANAGEMENT AND OPERATION OF SOME GOVERNMENT SERVICES Private firms supply a service by using its own employees, material, etc. Government has right to monitor private firm's management and operation in accordance with the rules written in contract agreement. Refuse collection is a common example for this type of arrangement. 2.PURCHASE OF GOODS AND SERVICES FROM PRIVATE SECTOR Government purchases many goods and services (stationary, luncheon, spare parts, computers etc)from private vendors. Under a contractual agreement, school, government buildings can be constructed to the private individuals ad private companies.
FRANCHISING	TRANSFER OF MANAGEMENT AND OPERATION OF NATURAL MONOPOLIES AND SOME OTHER TOLL GOODS Franchising would be either exclusive and multiple. Government usually regulates the policy and management.
MANAGEMENT CONTRACT	TRANSFER OF MANAGEMENT OF SOME PUBLICLY OWNED ENTERPRISES AND ESTABLISHMENTS Examples are hospitals, public hospitals, rehabilitation center, elderly house etc. Government retains the ownership of the public facilities under a management contract agreement.
LEASING	TRANSFER OF MANAGEMENT AND OPERATION OF SOME PUBLIC SERVICES Example: Municipality lease its own trucks to a private firm for the delivery of solid waste collection. Management and operations are carried out by private firm. Government retains the ownership.

Partnership could be done between two or more private firms; however, it may be established between a private enterprise and public enterprise.The former can be named as a "private sector joint venture agreement" and the latter as a "public and private joint venture agreement" or simply as a "mixed enterprise".

Both types of joint venture agreements can be made within the country or at the international levels. Domestic joint venture is a partnership of two or more firms operating within a country. However, international joint venture exists when a domestic public and/or private firm is involved in a business collaboration with a foreign public and/or private firm. International joint venture is especially popular within developing countries. It has been proved that developing countries suffer for lack of capital accumulation, technical know-how etc to boost the economy. Therefore, international joint venture agreements are a reasonable means to achieve economic development in these countries. An international joint venture agreement is usually made between two firms where usually one operates in a relatively developed country and the other in a developing country. A joint venture agreement covers almost all stages of industrial activity such as joint planning, production and marketing, thus enjoying the blessing of research and development in managerial and technological fields, copyrights and trademarks, experience, expertise, modern plants and machinery as provided by the partner in the developed country. On the other side, cheap labor, raw materials, geographical advantage, better market incentives etc are offered by the partner in the developing country (Jafri, 1987; 2).

As understood, the main rationale of international joint venture investments is to help underdeveloped countries achieve economic growth the development. However, firms operating in developed countries also gain from this type of business collaboration, because there is a high probability for a reasonably good rate of return on investments.

One of the problems with this type of arrangement is that politicial and economic uncertainty and instability sometimes discourages a foreign private firm from participating in international joint venture agreements.

10. Build-Operate-Transfer (BOT) System

Build-Operate-Transfer (BOT) has been a popular method in some developing countries in recent years. The system is quite simple and seeks to attract foreign capital. Direct foreign investments are encouraged to build infrastructure facilities, petroleum exploration stations, entertainment centers, recreation facilities etc within the developing or host country. Upon completion of construction, the foreign private firm has the right to operate the facilities for a certain period of time agreed upon via contract. At the end of the contract, the facilities and establishments are transferred to the government.

Foreign private capital, particularly in the form of direct investment, plays an important role in economic development within developing countries. Domestic private capital investment could be insufficient due to such factors as lack of private capital accumulation, reluctance to undertake risk and uncertainty by private individuals and firms etc. In this case, government usually establishes public economic enterprises in various sectors. Lack of modern technology, availability of sufficient capital, managerial and technical know-how are factors that may hinder public enterprise's ability to work efficiently. However, foreign direct investment can contribute to developing countries a great dael. General economic conditions in many developing and underdeveloped countries offer a challenge to the private sectors of more developed countries to explore the significant opportunities that exist in the developing world. On the other hand, there is a high probability for a reasonable rate of return on investment. Despite political and economic instability and uncertainty in the developing countries, foreign investors can be offered some guarantees to attract investment.

11. Non-Profit Organization

Non-profit organizations, which are sometimes called "Voluntary Organizations" or "Philanthropic Organization", also provide some public goods and services. A non-profit firm is an organization that is barred from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors of trustees. In addition to this main characteristic which is called "nondistribution constraint", a non-profit organization has some other features:

-They are often granted a variety of tax subsidies such as tax-deductable

donations, special postal rates and exemption from income and property taxation.

- They usually have no access to tax revenues for financial support; however, they sometimes get grants from government.

-They generally receive only a minority of their total revenues through donations from either private or public sources. Overall, their revenue is even more dependent on user charges largely involving sales of services or dues from members (Hansmann, 1986,58-59; Weisbrod, 1987).

According to this last characteristic, a non-profit organization is either "donative" or "commercial". A donative non-profit organization receives most or all of its income in the form of grants or donations from individuals, private firms as well as from government. By contrast, a "commercial non-profit organization" receives the bulk of its income from fees charges for its services.

Non-profit organizations -donative or commercial- generally provide merit and club goods such as rehabilitation and sanitation centers, elderly housing, drug-alcohol prevention and treatment centers, cultural activities (museums, private libraries, art galleries, symphony orchestra, theaters, etc), hospitals, environmental protection centers, blood banks, child-care, nursing homes etc.

Sometimes, non-profit organizations can be established via the cooperation among inhabitants of a district. In this case, the neighborhood association or voluntary mutual aid association can either deliver services directly by using its members or employees or hires a private firm as to provide services.

As understood, government is able to transfer some of its functions to those non-profit or voluntary organizations. However, a non-profit economy may exist only if government provides a great many inventives to those voluntary organizations.

III. CONCLUSION

Privatization is frequently used referring to the sale of publicly owned enterprise's assets or shares to the individuals or private firms. However, this definition gives only a narrow meaning of privatization. The sale of publicly owned enterprises' assets or shares to the private sector is sometimes called

"denationalization". As a matter of fact, denationalization is just one method of privatization. In broader meaning, privatization refers to restrict government's role and functions and to put forward some methods or policies in order to strengthen free market economy. Within this context, privatization encompasses the many ways, in which the private sector assumes functions that were previously carried out by the government. These may range from the sale of publicly owned enterprises to contracts with private firms to deliver public goods and services. In this article, I have tried to clarify the concept of privatization.

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a. Metinde yazarın adı geçiyorsa, parantez içinde yanlızca basım yılı belirtilmelidir. Örnek<<.... Aldemir (1985)...>>.

b. Yazarın adı metinde yer almıyorsa parantez içinde hem yazarın soyadı, hem de basım yılı virgülle ayrılarak belirtilmelidir. Birden fazla kaynağa aynı anda atıf yapılıyorsa, yazarlar soyadlarına göre alfabetik sıraya konmalı ve birbirinden noktalı virgülle ayrılmalıdır. Örnek <<... (Öztürk, 1984; Barutçugil, 1983...>>,

c. Belirtilen kaynağın ikiden fazla yazarı varsa, yalnızca birinci yazarın soyadı verilmeli ve <<v.d.>> ibaresi <<ve diğerleri>> anlamında kullanılmalıdır. Örnek <<..... Cemalcılar v.d , 1979.....>>

d. Yapılan atıfta sayfa numarasının da belirtilmesi gerekiyorsa, basım yılından sonra iki nokta, koyarak, sayfa numaraları verilmelidir. Örnek <<..... (Akat, 1984:86.....>>,

e. Aynı yazarın aynı yıl içinde yayınlanmış birden fazla yazısına gönderme yapılırsa yıllar harflerle farklılaştırılır. <<.... Akgüç (1980a: 15-20; 1980b: 18-40).

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