Centre for Development Policy & Research

CDPR DISCUSSION PAPER 0799

Privatisation and the Post-Washington Consensus: Between The Lab And The Real World?

By

Chris Cramer

1999

Centre for Development Policy & Research (CDPR)
School of Oriental and African Studies, University of London
Thornhaugh Street, Russell Square, London WC1H 0XG, United Kingdom
Telephone: +44 (0)20 7898 4496,
Fax: + 44 (0)20 7898 4519,
E-mail: CDPR@soas.ac.uk
URL: http://www.soas.ac.uk/centres/cdpr

INTRODUCTION[1]

Privatisation is the most tangible manifestation of the withering of the state required by the Washington Consensus. The policy has been gaining ground since the early 1980s (Cook, 1997). About 70 per cent of all structural adjustment loans made during the 1980s contained a privatisation component (Cook and Kirkpatrick, 1995). This has been especially true of structural adjustment loans to Sub-Saharan Africa (Berg, 1994, Bennell, 1997).

The Post-Washington Consensus (e.g. Stiglitz, 1997a, 1998a) conception of privatisation is, at first sight, different from that reflected in structural adjustment programmes of the 1980s and 1990s. The main differences include a less ideologically dogmatic attachment to privatisation as developmental panacea and a more pragmatic appreciation of the need to combine privatisation with regulation and competition policy, both of these being the preserve of the post-Washington Consensus state (Kolodko, 1999). Stiglitz does take account of concerns that have been central to the broader, non-World Bank literature for some time. However, some features of his and other Post-Washington Consensus contributions actually represent a return to themes that were significant in Bank thinking in the early 1980s. Towards the end of the 1990s the Post-Washington Consensus literature on privatisation expanded, in particular taking the form of a reaction to the failure of shock therapy transition in the former Soviet Union.

This paper outlines the place of privatisation in the Washington Consensus, sets out the main features of the Post-Washington Consensus approach, and argues that there remain considerable shortcomings. Enterprises are mistakenly treated as an aggregate group, where a case by case approach is likely to be far preferable. Blanket privatisation programmes have a tendency to perpetuate precisely the kind of incoherent, unselective subsidies that World Bank interventions are supposed to eradicate. Furthermore, privatisation programmes are typically conducted without regard for the complex, specific and necessary political economies of individual late industrialising societies.

1. EVOLUTION OF THE WORLD BANK POSITION[2] AND THE WASHINGTON CONSENSUS ON PRIVATISATION

The pro-market stance has not always dominated the Bank's lending approach: 'During much of its history, the organization as a whole has had a profoundly ambivalent relationship with the private sector' (Babai, 1988, 259). A turning point came with the Berg Report (World Bank, 1981) which blamed governments for perceived development failures in Sub-Saharan Africa, criticising widespread state intervention and arguing that parastatals were a drain on scarce government resources. The report recommended introducing competition and expanding the remit of the private sector. This theme was picked up in the 1983 *World Development Report* (World Bank, 1983). Privatisation was not spelt out at this stage – the focus was on state-owned enterprise (SOE) reform, market pricing, and cancelling of subsidies. In fact, according to this 1983 report competition is more important than ownership. The "key factor determining the efficiency of an enterprise is not whether it is

[1] Paper written for the SOAS seminar series on the Post-Washington Consensus

[2] The main vehicle for promoting and informing the Washington Consensus is the vast body of literature published by the World Bank. However, as a large institution with different departments and research bodies, there are inconsistencies, for example, between Bank funded and supported research (e.g. the EDI and World Bank Research Observer) and headline policy documents. These not only undermine the notion of the Bank as monolith but also at times weaken the whole idea of consensus. A further gap appears between these and policy implementation. This summary of the evolution of the Bank's position focuses on the widely circulated research publications and those that appear to be most influential in policy advice.

publicly or privately owned, but how it is managed" (World Bank, 1983, 50, cited in Cook, 1997).

Until the early 1990s, the anticipated scope of privatisation was limited. However, the Bank came to see public sector reform as unsuccessful (Shirley and Nellis, 1991). Still it was emphasised that privatisation was not an end in itself but a tool to increase efficiency. A further shift came with the 1992 publication: *Privatization: the lessons of experience* (Kikeri et al, 1992), where the message now was that ownership does matter, after all. It was argued that even where commercialisation had brought about improved SOE performance, improvements were short-lived. Privatisation would increase the irreversibility of reforms.

The move towards widespread privatisation was further boosted by a World Bank empirical study in 1992 that concluded that privatisation of monopolies can bring about net welfare gains (Galal et al, 1995). This was widely cited (Kikeri et al, 1992; World Bank, 1995) as evidence that privatising monopolies can be beneficial.[3] This meant that the scope of what could be privatised could be widened and it became legitimate to aim to privatise more or less everything. A string of further Bank publications during the 1990s reinforced the pro-market stance and the elevation of privatisation to pride of place in reform packages: these publications included *Adjustment in Africa* (World Bank, 1994), *Bureaucrats in Business* (World Bank, 1995)[4], and *Privatization in Africa* (Campbell-White and Bhatia, 1998). Privatisation in most of the literature in the 1990s is presented as unquestionably beneficial. The theoretical reasoning behind the policy and even its objectives are only briefly addressed. Assessment is couched more in terms of extent of implementation than in terms of how outcomes relate to objectives. The Bank has thus commonly measured the success of privatisation programmes by how rapidly programmes were implemented and by the number of privatisation transactions.

Initially a response to policy failures in other areas, privatisation began to acquire a momentum of its own and became a panacea for all sorts of economic ills. Privatisation programmes in developing countries have in fact been overloaded with objectives, and these have at times proven contradictory.[5] Long-term developmental goals and short-term fiscal fixes, even if these did work, are not obviously compatible. A frequently stated goal of privatisation programmes is to maximise domestic private sector development and national ownership, yet the pressures of loan conditionality, of fiscal deficits, and a range of other factors commonly lead to the greatest value of privatisation transactions being accounted for by foreign investors.

Critics have emphasised that the Washington Consensus greatly exaggerated both the ease of implementing privatisation and the gains from privatisation (Cook 1997; Heald, 1992, cited in Cook and Kirkpatrick, 1995, 22). And the World Bank itself has found that efforts to encourage privatisation have been among the most disappointing of all structural adjustment policies (Helleiner, 1994). The Post-Washington Consensus recognises that privatisation was not well planned: "From today's vantage point, the advocates of privatisation may have over-estimated the benefits and underestimated the costs" (Stiglitz, 1997a, 19). In Stiglitz's view,

---

[3] What most references neglect to mention is that the authors of this study explicitly warn against extrapolating their findings to very poor countries where market conditions and institutional infrastructure are different from those of the sample countries.

[4] These reports have been widely criticised. See, for example, Chang and Singh (1997); Cook (1997); Bayliss and Fine (1998).

[5] For example, the Government of Malaysia's guidelines on privatisation (1985, cited in Adam et al 1992, p23) state: "*…privatisation is expected to promote competition, improve efficiency and increase the productivity of the services. [In addition] privatisation, by stimulating private entrepreneurship and investment, is expected to accelerate the rate of growth of the economy.*"

most people at the time would have preferred to have proper regulatory systems and competition in place before privatisation but the reason it was pushed through was that "no-one knew how long the reform window would stay open" (ibid, 20). In this situation privatising without the appropriate prerequisites in place "seemed a reasonable gamble".

2. WHAT IS THE POST-WASHINGTON CONSENSUS VIEW OF PRIVATISATION?

Given the association of the Post-Washington Consensus with Stiglitz, it is reasonable to look for the theoretical roots of the Post-Washington Consensus view of privatisation in Stiglitz's own work. Certainly, there is little elaboration in the WIDER lecture or the more recent Prebisch lecture by Stiglitz (1998d) on privatisation. What there is makes the following point: privatisation has been treated as an end in itself rather than a means; whereas the critical point is that privatisation should be accompanied by, or even subservient to, competition policy.

In his earlier work (1994), Stiglitz argues that traditional mainstream theory on privatisation is weak, that it is based on perfect competition assumptions and neglects information imperfections. There is, he argues, no strong theoretical justification *a priori* for privatisation. However, in practice there <u>are</u> substantial benefits to privatisation: privatisation increases the transaction costs of securing government protection and subsidy; there probably <u>are</u> better management oversight possibilities within the commercial sector; and privatisation allows for selection of efficient entrepreneurs through market-orchestrated weeding out. However, argues Stiglitz, privatisation may not be the most important policy – and here he points out that Chinese rapid economic growth has not been driven by privatisation (1998b). To the extent that privatisation is still extremely important, what really matters is that it is folded into a competition policy. In other words, privatisation is subservient to creating an effective competitive environment that needs still to be watched over by the state.

Stiglitz on competition and competition policy.

The fundamental argument made by Stiglitz is that privatisation is far less important than market structure. Market structure is highly unlikely to resemble the rarefied world of perfect competition imagined by the neoclassicals. Instead it will be a world of imperfect competition, whose imperfections are heightened once we acknowledge the role of information gaps and asymmetries. Nonetheless, in many cases this market structure need not contain <u>no</u> competition. There is a reality in between perfect competition and pure monopoly. This murky world of real competition, taking various forms, is ill served by traditional theory. However, once examined closely it becomes clear, to Stiglitz, that contests between a handful of firms in a given market do yield efficiency gains. It is here, in maximising the degree of competition within imperfectly competitive markets, that theory and policy should be concentrated. Policies include regulatory oversight mechanisms and anti-trust competition policy.

How far does Stiglitz move from the Washington Consensus?

If we return from these intellectual foundations of Stiglitz's own views on privatisation and competition to the broader brush strokes that he paints in his recent vision of a Post-Washington Consensus, there are three points to stress. First, despite critical remarks about the obsession with inflation reduction, etc., the Post-Washington Consensus is really characterised by a broadening of policy tools around a slightly more relaxed version of basically the same core ideas contained in the Washington Consensus. Thus, Stiglitz (1998b) argues that policy reforms should still contain liberalisation, privatisation and macroeconomic adjustment. This may be significant when we consider the constraints on effective privatisation in developing or transitional economies further, below. It is also clear from both Stiglitz's work specifically on privatisation and competition and his vision of a Post-Washington Consensus that state subsidy and protection are, under no circumstances, worthwhile policies to adopt. The major benefit of privatisation is that it reduces the temptations for such protection.

Second, Stiglitz's notion of the relationship between state and markets is one of balance, to be determined in specific cases by weighing up the relative strengths and weaknesses of the two, supposedly discrete, sectors. Thus, implicitly, the public sector has more of a role where state capacity is strong; but where the state is weak (however this weakness is defined) <u>relative</u> to the private sector, then markets should take on a greater role. Following this idea, the implication would seem to be that privatisation has a significant role in countries with weak governmental capacity, provided, of course, that these governments still implement and monitor what Stiglitz generalises as competition policy. This is a conception of state and market relations that we shall criticise shortly. For now, it is simply worth noting that this argument suggests a naturally occurring inverse proportion of strength and weakness between the state and the private sector.

Third, there is an analytical movement in Stiglitz's work, which belies the claims to radicalism that he appears to make. Typically, he begins with a trouncing of traditional mainstream theory and a strong argument in favour of developing theories and policies based more solidly in reality. However, just as typically he then tends to arrive at conclusions that are not so different from the mainstream position after all. Flip assumptions are made, for example, about the values of openness, without empirical justification or even acknowledgement of the work done within the World Bank, by Pritchett (1996), questioning the very basis of the concept of "openness". While Stiglitz accepts that competition can be wasteful and destructive, this regarded as exceptional and its implications, especially for poor countries, are left unconsidered. To give another example, Stiglitz argues that privatisation allows inefficient enterprises to be weeded out, and suggests reasonably that it is possible for essentially good firms to be weeded out through bad luck and for bad firms to survive through good luck. However, he comes to the summary conclusion that this is socially acceptable since on average enterprise quality will improve. Only in his most recent contribution, on privatisation and reform in Russia (1999), does Stiglitz begin to shift from this position.

A conclusion, thus far, might be that the putative Post-Washington Consensus promises a more subtle understanding of the costs and benefits of privatisation and equips policy makers with better tools for designing reforms that may or may not involve privatisation. However, it is also clear that this Post-Washington Consensus view is driven by fundamental ideas that economies should avoid "distorting" markets by means of subsidies and protection, that openness is to be valued above virtually all else, and that policy should ensure that there is as much competition as is imperfectly possible. Nonetheless, literature in the Post-Washington Consensus vein represents a significant improvement upon the orthodoxy of the 1980s and early 1990s. This is particularly so in its acknowledgement of the importance, not as a side issue but as a central priority, of institutional change if privatisation and other economic reforms are to work (Stiglitz, 1998a; Nellis, 1999; Kolodko, 1999);[6] and in its rejection of shock therapy radicalism. Kolodko (1999) adds the insight that the time question is not simply

[6] Gillibrand (1998) identifies the need, even in competitive market structures, for a fair trade agency, a coherent competition policy, an anti-trust or monopolies and mergers agency, and commercial courts, plus quality standards agencies and self-regulating sectoral associations and professional institutes for accountants, lawyers, bankers, engineers, surveyors and managers. He points out that in Britain post-privatisation regulation bodies have been estimated to employ more than 20,000 people and to cost more than £1bn a year to administer.

one of shock therapy versus gradualism, each taken as an exogenous choice, but rather is a function of the fact that complex economic, institutional and cultural changes are by their very nature time-consuming. Questions remain, however, over whether this recent literature goes far enough to address the analytical and policy challenges associated with privatisation, transition, enterprise restructuring and industrialisation.

3. WHAT IS WRONG WITH PRIVATISATION?

We aim in this section to discuss some of the key areas of weakness in the Washington Consensus regarding privatisation and to consider the extent to which these are addressed by the Post-Washington Consensus.

4.1 Theory

The essence of privatisation theory is that the process streamlines the relationship between enterprise owners and managers, and thereby improves performance. There are two main theoretical strands from which more detailed arguments follow. Firstly, according to property rights theory, a private owner, with the right to residual income (ie profit), will exercise greater monitoring effort than a public sector counterpart with no such direct rights. Secondly, public choice theory in the New Political Economy tells us that privatisation reduces the scope for manipulation of an enterprise for political (and inefficient) ends.[7] Privatisation simplifies the relationship between agent (i.e. an enterprise manager) and principal (i.e. a shareholder in a private company or the government in a state company).

This theoretical basis of privatisation has been criticised extensively[8] and will not be discussed here. Most criticisms apply equally to the Post-Washington Consensus. However, it is worth stressing that Stiglitz acknowledges that conditions rarely even approximate those of neo-classical assumptions and argues that because market imperfections are rife theory gives little guidance (Stiglitz, 1997a).

4.2 Competition, regulation, and state/private sector relations

Despite this greater realism (informed by East Asian industrialisation experiences and, more recently, by international financial volatility and the obvious failure of shock therapy transition in Russia), the Post-Washington Consensus remains analytically narrow, naïve and weakened by internal contradictions.[9] There is little analysis of how states assist in constructing markets or in encouraging capital accumulation in the private sector.[10] Nor does the Post-Washington Consensus consider in detail how privatisation relates to the transformation of a state-owned enterprise into a capitalist firm, if the latter is defined as an enterprise driven by independent initiative taking behaviour (Yamin, 1998). There is little sense that the state and private sectors are not just nicely calibrated by relative strength and weakness, with a generally inverse relationship between the properties of the two, but are

[7] For a detailed exposition of the conventional approach, see Vickers and Yarrow (1988).

[8] For critiques, see Fine (1990); Rowthorn and Chang (1995); Martin and Parker (1997), Bayliss and Fine (1998). Chang and Singh (1992) provide a review of the theoretical and empirical position regarding privatisation in developing countries.

[9] Nellis (1999) states that evidence from the former Soviet Union shows that the association between private ownership and restructuring is weak or nonexistent, that firms partially owned by the state perform better than fully privatised companies, that there are few differences between performance of state-owned and private firms, and that clear performance improvements are only visible in the few firms that have been sold to foreign investors.

[10] On effective Chinese support to indigenous big business see Nolan and Xiaoqiang (1999).

jointly determined by the political economy from which they arise. And despite acknowledgement of some of the realities of state intervention in East Asian industrialisation, the common strand of advice in Post-Washington Consensus literature to other developing countries is “don’t try this at home”.

A central argument of the PWC is that the state should match its intervention to its capability (Stiglitz, 1998; World Bank, 1997). The argument is that government should not overstretch itself but should concentrate on what it does best. For low-income countries, this line of reasoning takes us back to the Washington Consensus days of the minimalist (rather than effective) state. Some states are so weak in capabilities that such a policy would mean that they did not carry out even core functions (Martinussen 1998).[11] The implication is that poor performance of states is due to their being involved in too many areas and if they cut back on some they will improve in those remaining. However, the notion that reducing the range of public sector activities will is sufficient to improve performance contradicts the idea put forward by Stiglitz that the size of the government does not matter as much as the way in which it operates.

This argument that government intervention should be less where capabilities are more scarce ignores the extent to which structural adjustment policies have themselves created scarcity of state capabilities by insisting on trimming the state directly, and through donor support to NGOs that have frequently lured away state employees with promises of computers, vehicles, foreign trips, etc.[12] In Sub-Saharan Africa, for example, stabilisation and adjustment policies have brought about a significant decline of the number of people employed by government in absolute terms and as a percentage of the population. Real wages in the public sector have fallen sharply also. The 1 per cent of the Sub-Saharan African population employed by government is extremely low by comparison with other LDCs, not to mention OECD countries. Yet the IMF, in late 1997, was arguing that there was “still scope for further downsizing” (Lienart and Modi, 1997, 32).

The Post-Washington Consensus concept of state capacity or capabilities is both too vague and too narrowly technocratic: it abstracts from the political capabilities of the state, replacing these with a simple notion that too easily can be interpreted as having the skills required to implement structural adjustment policies. The concept of state capacity in the Post-Washington Consensus abstracts from the dynamic experiences that generate varied forms of capacity. Thus, for example, a belated and partial acceptance that the state was significant in, say, South Korea, completely ignores the actual historical dynamic of conflict and co-operation, of trial and error, and of institutional learning-by-doing through which the so-called developmental state emerged in South Korea (see, e.g., Chang, 1994). Stiglitz (1998a) briefly discusses the relative performance of Russia and China to demonstrate the significance of competition relative to privatisation. Yet he conducts this discussion in abstraction from the historical influences on each country, the differing political economies of the two countries, and the characteristics of the emergence of a “developmental state” in China. The real questions – to do with why some states and markets come to interact in a value-enhancing, dynamic fashion where others do so less well – are far more complex and cannot even be raised within this technical notion of state capacity.

Furthermore, the notion of matching the state’s role to its (measurable) capability implicitly assumes that there is a market to fill the gaps left by the state. This is problematic because weak states tend to correspond with weak markets (Cornia, 1998). Further, weak

[11] A good example of this in practice is the contracting-out of customs services in Mozambique to the UK firm Crown Agents.

[12] In Poland, for example, the Bank made sure that it undermined the capabilities and scope of the Industrial Development Agency (IDA), charged by the Ministry of Industry with enterprise restructuring initiatives. The role of the IDA was limited to loans to hire consultants to undertake 150 or so industry and enterprise studies to further the goal of privatisation (Amsden et al, 1994).

states are commonly in lower income economies that tend to be more monopolistic. This is acknowledged by Stiglitz (1996, 158) himself, recognising that market failure is more common in developing countries. This means that low-income markets require greater reliance on regulation, competition and anti-trust legislation for privatisation benefits to be achieved. Therefore, taken to its logical conclusion, markets in low-income countries need to rely more on intervention. However, it is for these countries that Stiglitz is prescribing that the state's role should be matched to capability and, therefore, reduced. Thus this approach is inconsistent and meaningless when applied to low-income countries.

For Stiglitz, the key to development lies not just in the private sector taking up activities beyond the state's capacity but in the private sector being competitive. Beyond the Washington Consensus emphasis on trade liberalisation and ownership change, Stiglitz's view is that the full benefits of liberalisation will not be realised without "creating a competitive economy" (1998a, 18). Further, contradicting his glib preference elsewhere for openness, he argues that protectionism *per se* has not been the cause of stagnation but that the failure by the state to create a competitive economy has been more important. In shifting the emphasis towards domestic competition, Stiglitz appears to subscribe to the "quantity theory of competition", i.e. that even if perfect competition is only a Platonic dream, in the real world the more competition the better (Weeks, 1995).

If Stiglitz is correct in criticising the Washington Consensus for identifying privatisation too closely with its supposed ends, he may repeat the error by over-identifying a basic notion of competition with developmental objectives. In this process, what is lost is the possibility that competition is only one means, though a significant one, and also the possibility that there are complex nuances to competition and its "fairness". *Whither Socialism* draws on the reality of transition economies simply to state that there is likely to be resistance to the orderly expansion of competition. What the analytical underpinning of the Washington approach misses is that restricted competition, industrial regulation aimed not at stimulating maximum competition but at reducing some dimensions of competition while perhaps stimulating rivalry, and indeed policies to provoke co-operation, might be highly effective within the context of meeting the challenge of technological upgrading. There is, of course, well-known evidence that governments in East Asian NICs such as South Korea tried to restrict competition in some sectors, for example where large sunk costs might give rise to short-term price wars or extreme investment cycles (Chang, 1994). Another issue here is that there may be a distinction between domestic, internal competition and external, international competition. This is not a distinction made by Stiglitz. Yet there may be a rationale for closer competition of domestic producers with a view to enhancing international competitiveness. This has been a feature, for example, of some horticultural export drives and it has always required state intervention to manage co-operation up to the point of export.[13] For instance, Madagascar's government intervened in the vanilla sector in the 1960s to ensure quality and regularity of supply, helping the country to take a share of the world market rising to more than 90 per cent by the 1980s. Chilean high value primary commodity export growth is also well known to have thrived on government support that technically tainted the purity of competition. Other examples include policies setting competitions for licences. Some recent research in European industry stresses the beneficial role of co-operation in generating production efficiencies (Milne, 1997). At a broader level, Stiglitz fails to take account of the range of capitalist growth experiences, which may have involved greater co-operation and different forms of competition.[14]

[13] On the expansion of Taiwanese small-business bicycle exports, for example, see Chu (1997).
[14] On the contrasting development of modern industrial enterprises in the USA, the UK and Germany, for example, see Chandler (1990); for a critique of the orthodox failure to learn from the varied history of industrialisation and economic growth see also Nolan and Xiaoqiang (1999)..

Privatisation can assist in creating an efficient, competitive private sector-led economy principally by reducing the scale and scope of rent-seeking, according to Stiglitz. Now, Stiglitz puts forward a richer understanding of how private sectors operate than the simplistic notions of the Washington Consensus. The latter suggested that privatisation would inevitably unleash a pent-up entrepreneurial elan, a competitive spirit, and a thirst for x-efficiency independent of any state intervention. Stiglitz in theory recognises that there are more similarities between public and private sectors than this view accepts, and he does acknowledge private sector impulses towards rent-seeking. Nonetheless, he maintains the argument that the major benefit of privatisation is that it raises the transaction cost of seeking protection and subsidy from the state. However:

- Protection and subsidy may be a critical part of successful productive growth; they certainly have been in virtually every successful industrialisation experience;
- There is no room in the Post-Washington Consensus for consideration of the complex policies that are required for effective sectoral growth. These go beyond relative prices to marketing, branding, quality, R&D, raw material supply renovation, supportive infrastructure, diverse relationships between participants in an industry or a commodity chain, and organisational capabilities. Responses to these issues tend to involve the <u>creation</u> of imperfect competition structures rather than regulation to respond to the sorry inevitability of imperfect competition by ensuring fairness.
- There is a double illusion in Stiglitz's application of information and transactions cost ideas. For SOEs' pursuit of state support is not necessarily costless: managers of state enterprises are, even where there are soft budget constraints, engaged in a competition for resources; and the private sector frequently appears undaunted by the costs of seeking protection. Indeed, it is peculiar that Stiglitz suggests this because elsewhere he is clearly aware of the realities of imperfect competition, and of firms' willingness to waste on advertising, raising rivals' costs, etc.

Both domestic capitalist enterprises and international firms in developing and transitional economies are extremely adept at pressing for state support of one variety or another. Research into the emerging capitalist sector in Africa reveals that the entrepreneurial class relies strongly on clientelist links, for example in Tunisia (Bellin, 1994) and Nigeria (Lewis, 1994). In Nigeria, privatisation has been highly politicised, with an emerging entrepreneurial class seeking and securing close protective ties with government (Lewis, 1994). Tangri (1995) cites evidence that privatisations in Côte d'Ivoire, Guinea and Zaire were used to reward political supporters. In Senegal, the government had to reinstate protection measures that had been removed in the name of structural adjustment simply in order to entice investors and get privatisation off the ground. With respect to multinationals, Bennell (1995) found that British manufacturing firms divesting from Sub-Saharan Africa during the 1980s cited as a major reason the dismantling of protection of industries in which they had been involved. In Eastern European transitional economies, multinational firms, alone or in joint ventures with domestic partners, have proved especially dogged in pressing for protection of enterprises they have taken over (Amsden, Kochanowicz, and Taylor, 1994). Privatisation clearly does not reduce the scope for interventionism. In many countries the government is closely involved in private enterprise, if unofficially, and in most countries the private sector in key areas can be bailed out by the government (Chang and Singh, 1997).[15]

One implication of this weak analysis of state-private sector relations is that naïve privatisation analysis and programme design may well encourage <u>incoherent</u> protection. Without a policy framework or rationale for selecting the beneficiaries of protection and negotiating the conditions under which this protection might be offered, it is more likely that

[15] This ought to be even more obvious in the light of the asymmetric adjustment to international financial crisis during 1997/98, in which advanced country creditors have been bailed out by concerted government intervention (see Palma, 1998).

weak developing country states will cave in haphazardly to pressure from the former *nomenklatura*, from other powerful domestic elites, or from TNCs. There are other ways too in which privatisation can easily entail an undiscriminating form of subsidy. It is common for privatisation in LDCs to take the form of payment by instalments. This method is chiefly adopted to make possible the sale of publicly owned enterprises to national capitalists (this is known as broadening ownership). Now, where there is inflation, where there are significantly delayed payments, and where there is default on instalments – all of which are common in privatising LDCs – then effectively the state has subsidised the privatisation process (Cramer, forthcoming). Aside from the public finance aspects of this, the point is that there is no economic, strategic coherence in this form of subsidy. Rather, outcomes are determined incoherently and are defined by how accurate the sale price of the enterprise is, by the access to capital and other resources of the purchaser, by interest rate levels, and undoubtedly by political connections also. Therefore, there is an argument that the World Bank is basically supporting privatisation programmes that subtly reproduce precisely what they claim to be trying to replace.

Privatisation, in the Post-Washington Consensus, will be effective if it is part of the creation of a competitive economy. Competition and regulation policies are central to the Post-Washington Consensus, having been peripheral at best to the Washington Consensus. The principle policy objectives must be either to increase the amount of competition or to replicate the presumed effects of competition by regulation where it is not possible to inculcate a competitive market structure (Stiglitz, 1998c). Regulation, we argue, is indeed critical to effective privatisation. However, as with the notions of competition and private sector behaviour vis-à-vis rent-seeking, the concept of regulation in the Post-Washington Consensus is rather limited. It tends not to take account of the implications of creating effective regulatory authorities, it tends to play down the politics of regulation issues, and it tends to restrict regulation to a narrow issue of replicating competitive market structure.

Low-income economies – where state capacity is often weakest and where there is typically little by way of competitive market structures – have perhaps especially great need of regulatory intervention (Kumssa, 1996). Yet in such economies regulatory capacity is in its infancy, capital markets are weak, anti-trust legislation is fragile at best, and frail regulation bodies have to confront the additional leverage pressures brought to bear by foreign participation in the private sector. By 1992 only 16 developing countries had restrictive business practice legislation and only one of these – Kenya – was in Africa (Bennett, 1993, cited in Cook and Kirkpatrick, 1995). Regulation has not formed part, typically, of policy conditionality in structural adjustment loans. Presumably this is because liberalisation is expected to induce competition (Cook and Kirkpatrick, 1995).[16] Indeed, regulatory reform in transitional economies seems to be regarded more as a means of attracting private investment by ensuring good returns than of promoting competition and efficiency (ibid.).

Regulation is problematic in industrialised countries and is much more difficult in developing countries where asymmetries both in information, technical skill and political power between regulator and enterprise may be greater. Enforcement difficulties may arise when foreign technical expertise is no longer available and when the negotiating strength of the regulator may have considerably weakened. Commenting on privatisation in Latin America, Ramamurti (1996a and b) expects that regulatory agreements negotiated at the time of sale will become increasingly obsolete. The regulator needs to be able to adapt the rules in circumstances of uncertainty and change but must have the authority to impose regulation policy. Few developing countries will be able to satisfy these conditions. In Argentina, the break up and privatisation of the national railway network has been beneficial in the short run with major increases in productivity. However, there are concerns about the long-term

[16] On legislative regulation, market regulation, and voice regulation as different types, see Standing, Sender and Weeks (1996).

regulatory capacity of the government. Concessionaires were seeking deviations from negotiated agreements within months when they were supposed to be firm for five years. And the bargaining power of the government has considerably diminished: neither bankruptcy nor re-nationalisation is a credible threat against non-compliance of the concessionaires (Ramamurti 1997).

Much of the Post-Washington Consensus (e.g. the *World Development Report* 1997) discusses regulation only in terms of utilities, the environment and the financial sector. There is no mention of anti-trust legislation. The advice is that regulatory options are limited to capability and this is put against the alternative of inefficient public ownership. The focus is on matching the government's role to its capabilities first and then increasing capability through technical measures. However, this is an invalid approach since regulation is difficult to change after privatisation without increasing policy uncertainty. This is acknowledged by Stiglitz whose work on this issue represents genuine progress.[17] He mentions anti-trust legislation for the first time, arguing that its application to developing countries has not been examined adequately and that US systems may be too complex to apply directly.

These challenges to the problem of regulation are compounded by the fact that there is evidence that privatisation programmes have lowered public sector morale. Regulatory problems are also increased by the fact that privatisation tends to absorb scarce state resources itself. In other words, if privatisation is meant to yield a "transition dividend", this is partly

To sum up, there is more to competition and competition policy than meets the eye of the Post-Washington Consensus; and the private sector has a greater proclivity to rent-seeking activities than this still partly inchoate consensus acknowledges. Partly as a result of these two facts and partly given the economic structure of developing and transitional economies, the requirements of regulation policy are complex and demanding. There is therefore likely to be a need for determined and substantial state intervention to tackle these issues, if privatisation is to be effective. Yet the Post-Washington Consensus rests on the assumption that the state should not intervene beyond its "capacity", an apparently technical property in very short supply in low-income economies. Regulation is costly and complex. It is also highly political, as of course is the whole question of the origin and nature of "state capacity". Furthermore, however, regulation is surely a matter of how the state intervenes to encourage private sector activity to support technological change, organisational restructuring, and industrialisation. It is, in other words, a broader and more challenging issue than the legalistic version presented in the Post-Washington Consensus literature.

For the Post-Washington Consensus literature on privatisation, competition and regulation is extremely weak when it comes to discussion of industrial policy. There is little or no evidence that the Post-Washington Consensus conceives of the relationship between privatisation and industrial policy any differently from the Washington Consensus. In the latter, privatisation was not one among a set of potentially appropriate tools of industrial policy: privatisation simply was industrial policy, particularly if backed by removal of all subsidies and opening to trade liberalisation. For example, there may be a clear justification for the Bank insisting as a loan condition that subsidies to chronically unprofitable state-owned enterprises be reduced. Yet, as Amsden et al (1994, 117) argue for Eastern Europe, "it is quite another matter for the Bank to insist that sovereign governments take no part in restructuring promising state-owned enterprises through industrial policy and the provision of supports to these enterprises with strict conditions determined by the governments themselves rather than the Bretton Woods institutions. The Bank, however, insisted on both". In another example, in Mozambique the World Bank first insisted on privatisation of the cashew

[17] Stiglitz (1999) argues that the "privatise, then regulate" approach creates a vested interest in blocking later regulation and competition.

processing sector and then, subsequently, put intense pressure on the government rapidly to liberalise the external trading regime protecting domestic processors. This amounted not to an industrial policy but to an explicit abrogation of industrial policy (Cramer, 1999).

The Post-Washington Consensus likewise conceives of barriers to entry and other imperfections in the structure of competition exclusively as constraints. He also favours export promotion on the standard grounds that it will encourage specialisation in line with comparative advantage. On this latter point, he neglects the argument that industrialisation is driven by active efforts to change comparative advantage (OECF, 1998), a strategy typically requiring departures from laissez-faire policies. On the former point, while it is of course important to acknowledge the potential role of competition, others have stressed that market imperfections can be advantageous in industrialisation. Amsden (1997), for example, stresses the role in successful industrialisation of creating effective market imperfections, not just correcting for their unfortunate presence. Again, this development of "competitive assets" has commonly involved states and markets and has also commonly been a politicised process. Furthermore, learning- by-doing and related arguments are simply brushed aside by Stiglitz.

Rather than attempting to theorise some institutional set-up by which there is no rent-seeking, no subsidy or protection, analysis of state and private sector economic activity would be better off asking under what circumstances close ties between states and private sector entrepreneurs are creative, value-generating relationships and under what conditions they tend to be less constructive. The argument here is that it is not necessarily a terrible outcome – contra both the Washington Consensus and the Post-Washington Consensus – to have directed credit, protection, subsidies, and other frightful distortions.

4.3 Analytical Weaknesses

The World Bank has been adept in using methodologies of analysis that ensure privatisation emerges in a strong positive light. Criteria of judgement, selective use of data, analytical sleight of hand, and over-aggregation of the issues are among the typical analytical tools that need to be critically highlighted. At the end of the 1990s, there has been little shift in these dimensions of World Bank analysis of privatisation.

First, the Bank applies rules and criteria ensuring that almost every outcome is a positive manifestation of the benefits of privatisation. For example, privatisation is deemed beneficial if enterprise performance improves after ownership change. If enterprise performance deteriorates and bankruptcy follows, this is also a beneficial result as it demonstrates the fact that the enterprise was not viable and was being propped up by the state (Campbell-White and Bhatia, 1998; Kikeri et al, 1992).

Second, the Bank manipulates the labour implications of privatisation in particular. Some enterprises reduce employment after privatisation, often because of high staffing levels in public enterprises. The Bank commonly differentiates between reform of the public sector and privatisation, arguing that the former is responsible for lay-offs and not privatisation (Campbell White and Bhatia, 1998). This is an artificial distinction to give privatisation a better press. In reality the two are part of the same process of public sector reform. For whatever reason, in many cases employment is reduced after privatisation and account needs to be taken of this. This is a real negative outcome of the policy representing a significant social cost. It cannot glibly be assumed that vigorous informal sectors will soak up labour shed by the enumerated, privatised sector. The closest the Post-Washington Consensus literature comes to taking this seriously is Stiglitz's (1999) critique of shock therapy in Russia.

Third, Bank literature (e.g. *Bureaucrats in Business*) tends to impose an unrealistic public/private dichotomy on the analysis of enterprise and economic performance (Bayliss and Fine, 1998). Stiglitz does delve deeper into country specific circumstances with less rigid emphasis on the public/private dichotomy, for example in his comparison of China and Russia. He states that there is a need to examine the development of institutions and social networks (Stiglitz, 1998b). Nonetheless, the terms of the discussion remain extraordinarily vague.

Fourth, the Washington Consensus adopts an aggregate approach treating all transactions and enterprises as homogenous. In reality, the term privatisation covers a spectrum of transactions from sale of 100 per cent equity to leasing assets. Likewise, privatisation covers a huge range of enterprises from utilities to monopolies to small-scale enterprises. The factors affecting the performance of this range of enterprises varies widely. The attractiveness to investors, the scope for competition, the implications for national development are all heavily dependent on country-, sector-, and enterprise-specific factors. Moreover, the levels of efficiency to be found in SOEs vary widely. The Washington Consensus treats all SOEs on an aggregate basis. Yet some SOEs do well and others do badly. Evidence from Kenya shows that about half a dozen enterprises accounted for most of the parastatal losses in Kenya (Grosh, 1991). Some SOEs are profitable and privatising these will have a negative impact on government finances.

Fifth, the use of empirical evidence in much of the World Bank literature on privatisation is highly selective and one-sided. The broader literature is less sanguine about the benefits of privatisation (eg Millward, 1988; Adam et al, 1992; Chang and Singh, 1992; Martin and Parker, 1997). There is little unequivocal empirical support for privatisation. Evaluation of privatisation is fraught with methodological difficulties – not least the question of the counterfactual. One conclusion of the empirical literature is that the public and private sectors contain both the best and the worst performing of enterprises. The only real policy advice that can emerge is to adopt a case specific approach.

4.4 Context and Policy Interactions

Much of the World Bank literature (e.g. Shirley and Nellis, 1991) rightly states that privatisation should not be viewed in isolation. However, the scope of the context that receives attention under the Washington Consensus is limited to the economic policy package of which privatisation forms a part. There is little consideration of the historical, economic and institutional context in which privatisation is implemented in developing countries. This is important because the objectives of privatisation are far reaching and rely on a number of linkages if they are to be achieved.

<u>History, the Private Sector and Competition</u>

Neither the Washington Consensus nor its hesitantly emerging successor have shown much interest in analysing and designing privatisation programmes within a historical context. Yet this can be illuminating. For example, in much of Africa, nationalisation arose as much from an absence of a capitalist class in some countries as from a commitment to socialism (Mkandawire, 1994a). The extent to which a domestic bourgeoisie has emerged in the meantime will affect, for example, the likelihood that a competitive environment will emerge quickly after privatisation. There may be only one or two entrepreneurs or groups that have the know-how, capital access, and market connections to take up opportunities. In Mozambique, for example, the development of a large state-owned enterprise sector after independence was driven both by defensive motivations and by a more assertive nationalising ideology. During the years of war and state socialism, there was no large-scale evolution of a bourgeoisie. Nonetheless, there were a handful of individuals or families that accumulated savings amassed by, for example, exploiting wartime trading rents. These formed the core of national buyers during the privatisation programme of the 1990s, though this is not the same thing as saying that they emerged as a ready-formed, competitive private sector eager to take independent initiatives that would have value-enhancing productive outcomes (Castel-Branco and Cramer, 1999).

Structural Adjustment and Privatisation

There has been too little awareness, in the Washington Consensus literature, of the scope for complex and contradictory interactions between components of reform packages. Stabilisation and structural adjustment programmes incorporate a range of policies that can be expected to affect privatisation. For example, fiscal policy pressures may mean that priority will be given to revenue raising aspects of privatisation while other supposedly efficiency-enhancing measures such as competition will be compromised. Stiglitz shows some sensitivity to the constraints on investment that have been imposed by obsessional stabilisation packages. Nonetheless, there is little in World Bank privatisation programmes, in Stiglitz's writings on privatisation and competition, or in recent World Bank publications on the subject, to suggest that privatisation might be affected by macroeconomic contraction, or other possible dimensions to structural adjustment.[18]

- Privatisation, as well as re-structuring, of state enterprises in Eastern Europe suffered from the macroeconomic constraints that tightened around enterprises during the early years of shock therapy. Among the difficulties that firms faced during this period of vanishing subsidy, trade liberalisation, and so on were a domestic demand squeeze, a high cost of borrowing, and a lack of quality and frontier technology capable of launching firms into open international competition (Amsden, Kochanowicz, and Taylor, 1994);
- Privatisation of cashew processing enterprises in Mozambique was followed by World Bank insistence on rapid trade liberalisation, which was to take the form of swiftly reducing the tax on exports of raw cashews to India. This combination of policies, in rapid succession, amounted to a 'hospital pass' (Cramer, forthcoming). Enterprises facing very high borrowing costs, and with poor technology, a poor quality of raw material input, and little experience in marketing or branding, were expected to switch instantly from a highly and inefficiently protected policy environment to fully open competition against rival industries in India, Brazil and, increasingly, Vietnam. Yet in none of these other industries could the policy environment be described as *laissez-faire*;
- In Ghana, privatisation of the banking sector was supposed to increase competition and thereby improve credit allocation to the private sector. Results have been disappointing because the government's fiscal deficit has meant that public borrowing has increased and Treasury bills offer high interest rates at low risk so banks are holding nearly 70 per cent of deposits in treasury bills.
- Privatisation is commonly expected to generate increased domestic and foreign investment. However, the investment response to stabilisation and adjustment policies, for example in much of Sub-Saharan Africa, has been unimpressive. This should be seen within a context in which foreign direct investment to the region has shrunk significantly as a proportion of global FDI flows (ADB, 1997, 12); and in which private investment has followed the downward path of public sector investment to less than half the level of the 1970s (Glen and Sumlinski, 1998). Adjustment is likely to have a negative impact on

[18] A significant exception is in Stiglitz's (199) critique of shock therapy in Russia, pointing out that privatisation combined with liberalisation of the capital account increases incentives to strip assets in newly privatised enterprises rather than to restructure firms.

investment through reductions in public investment and contracting real incomes reducing effective demand (Severn and Solimano, 1992).[19] Privatisation is unlikely to trigger a resurgence of investment in Sub-Saharan Africa, but is more likely to follow trends in investor confidence.

Risk and Uncertainty

More important may be the uncertainty resulting from adjustment programmes (Severn and Solimano, 1992). This is partly a question of political uncertainty (ADB, 1997, Box 4.1. Proceeding with privatisation in this environment means finding ways of dealing with investor uncertainty. One way is to make significant concessions on sales terms (ADB, 1997; Hildyard, 1997, 21). Alternatively, one can try to limit the irreversibility of private sector investment in a privatisation transaction through partial sale or leasing or management contract mechanisms (ADB, 1997). Thus, while privatisation is attractive to policy makers because of its signal of policy irreversibility, for investors too great an irreversibility or investment commitment, in conditions of uncertainty, may make privatisation less attractive.

There are further economic factors in the context of privatisation programmes in many developing countries that complicate the perception of risk in the private sector. On the one hand, the conditions of production, especially in smartly liberalised transition economies with fragile financial institutions, are highly risky. Furthermore, the uncertainty of production was presumably one of the reasons in many developing countries why the state nationalised firms in the first place. On the other hand, risk may in some circumstances be of too little concern to allow for maximum benefits from privatisation. In Eastern Europe, privatisation has been an indirect form of restructuring because it has not taken the form of the purchase by private buyers of SOEs in exchange for money, but in exchange for debt or vouchers. This has been described as pseudo-privatisation. It carries a greater risk of bankruptcy: nothing is paid for an asset, so there is less to be lost in disposing of it (Amsden et al, 1994).

In poorer countries – for example in Sub-Saharan Africa – privatisation has not really gone down the voucher, mass privatisation route. Yet privatisation does often involve the transfer of assets into private hands without the same conception of financial risk that might be significant in, say, UK privatisation. For domestic entrepreneurs may finance their purchase of state owned enterprises by loans from commercial banks that themselves operate under a form of soft budget constraint. The commercial banking sector in Mozambique, for example, during the period of privatisation was taken over largely by Portuguese financial organisations. Portuguese banks lending overseas are guaranteed state support in the event of bad loans, and therefore have little constraint on their lending behaviour. Alternatively, where state-owned enterprises are sold off cheaply, and where there are no institutional mechanisms supporting long-term investment lending and industrial policy, then there are temptations to convert factory premises into warehouses, to asset strip and to switch into retail or export/import depot activities.

Arguably there are underlying tensions between the process of transition or market liberalisation and the goal of transforming lumbering SOEs into vigorous private sector firms. Yamin (1998) argues that if a firm is defined as an enterprise driven by independent initiative taking behaviour, then a high degree of buyer and seller risk in newly liberalised economies undermines the propensity for such initiative taking. This propensity is further weakened where privatisation transactions are not backed by significant sunk costs that would impel the enterprise to engage in "market making" activities. Again, this highlights the problems associated with cheap-sale or low-commitment privatisation.

[19] For further discussion of investment trends and the crowding-in versus crowding-out debate, see Fischer, Hernandez-Catá and Khan (1998, table 2) and Fontaine and Geronimi (1995).

Loan Conditionality

An outstanding feature of the context of privatisation programmes in developing countries is the presence of donors and in particular the World Bank and IMF. Privatisation has formed a part of loan conditionality in numerous structural adjustment packages. The greater a country's reliance on the Bank, the greater the odds that it will be privatising (Ramamurti, 1992; Babai, 1988, 269). There are various consequences of the Bank's privatisation fetish for the impact of privatisation. Loan conditionality tends to tie privatisation in to speed and number of transactions rather than a careful consideration of the sequencing of related reforms. Hence, the World Bank's 1998 review of privatisation in Africa (Campbell-White and Bhatia, 1998) affects "surprise" that there is not more competition policy and regulation. However, programmes that have prioritised selling off enterprises before establishing supportive institutions and policies are the direct result of Bank-led initiatives.

4.5 Political Economy

Both the Washington Consensus and the Post-Washington Consensus are couched in terms of things that work and things that don't. Stiglitz offers the idea that the Post-Washington Consensus needs to be more sensitive to specific conditions in each country. This is to be welcomed but there are reasons why one might be less than enthusiastic about this. One is that the Stiglitz vision of what specific conditions means is itself limited to weighing up the relative strengths and weaknesses of states and markets, public and private sectors, and adjusting policy expectations accordingly. This would-be consensus, among other faults, is ill equipped to cope with conflict among political groups: it is naively a-political in its analysis, though not necessarily in its underlying intent.

The success of privatisation, or of other technically possible policies, depends on the political economy in which they are attempted as well as just on the economic and financial conditions. To put it another way, the success of privatisation may depend on how and whether capitalism is ideologically and socially embedded. Here one needs to consider the role of the state, historically, in constructing institutions of private sector transaction and production; and, indeed, the role of particular political economies, or political settlements (Khan, 1995) in the development of the state. The former is a far more complex matter than "enabling" the private sector by cutting red tape and instituting competition policy. States have, in developing countries, made double movements both to stimulate and to regulate markets, as Polanyi (1944) observed. Yet the issue goes beyond this too, to the political economy within which both states and private sector agents operate. For example, Gerschenkron (1961) did not just note the possibility of reaping advantages from backwardness, nor did he just note that the institutional response to the challenges and tensions of late industrialisation differed between countries. He also stressed the dramatic ideological shift that was necessary but not inevitable or predictable, before effective social and institutional responses to these challenges could be found. It is very clear that the Post-Washington Consensus – with its contraptions of asymmetric information and their implications for efficient institutional development – really does not improve much on its predecessor by way of what is required for political economy analysis.

4.6 Distributional Impact

Privatisation can be expected to exacerbate domestic and international inequality. Much of the literature states that indigenous populations have been taking part in privatisation programmes (e.g. Campbell-White and Bhatia, 1998). However in low-income countries this is usually at the lower end of the scale. Research in Ghana and Mozambique shows that the larger and higher value enterprises have been sold (at least in part) to foreign investors (Bayliss, 1998; Cramer, forthcoming). In recognition of the potentially adverse distributional impact, some countries have established or are planning to establish privatisation trust funds to warehouse shares until such time as indigenous citizens are able to participate. This also allows the smaller investor to own a small piece of an enterprise. However, this is a limited form of participation, particularly if the owner is not a national. In Russia, policies aimed at improving the distribution of state assets (i.e. policies targeting managers and employees) have in fact become mechanisms for the transfer of wealth from poor to rich, and from pensioners and state workers to enterprise managers and employee groups (Nishimura, 1998). In short, the rhetoric of broadening ownership through privatisation can easily be a euphemism for, in fact, narrowing ownership.

Absence of data makes it impossible to calculate the distribution of welfare gains and losses of privatisation in Africa (as done for high and middle income countries by Galal et al (1992). However, international shareholders are expected to benefit substantially from privatisation. Where there is domestic participation, this is likely to involve higher income levels.[20] In most cases employment falls after privatisation although there is some evidence that working conditions improve for those workers retained (Bayliss, 1998). The hope is that employment will increase in the long run but the response typically has been slow. In the long run, privatisation in circumstances of high formal sector unemployment can be expected to weaken workers' bargaining positions and may increase the casualisation of labour and adversely affect working conditions. Thus retrenched workers lose and the impact on retained workers is mixed.

The impact on consumers depends on the effect of privatisation on price, product quality and level of output. In some cases price increases have been introduced prior to privatisation to attract investors (e.g. telecommunications in Mexico, Ramamurti, 1996). The distributional impact depends on the identity of the consumers. The distributional impact of the fiscal effect depends on what happens to privatisation proceeds. Evidence from Ghana shows that revenue proceeds are another source of revenue in the government budget. Government expenditure is mainly on recurrent items.

While distribution features in some recent World Bank literature (e.g. Campbell-White and Bhatia, 1998), it is not a central issue. The discussion on employment focuses on numbers employed or laid off. It does not consider wider labour issues such as the extent of casual staff, unionisation, working conditions, salaries. World Bank advice to African countries on what to do about displaced labour is to offer more generous severance packages (Wallace, 1997) to buy support for privatisation.

4. CONCLUSION

This paper has shown that many of the key problems of the Washington Consensus are considered by the Post-Washington Consensus, but only within a restricted, over-simplifying analytical framework. Other issues such as distribution are barely touched upon even within the avowedly participatory, pro-egalitarian sections of the Post-Washington Consensus literature. In practice, privatisation has created its own logic beyond the original objectives. It is used more to highlight commitment to market-oriented reforms or to comply with donor conditionalities than to increase efficiency (Pinheiro and Giambiagi, 1994, on Brazil).

Privatisation programmes need to be radically adapted in the light of issues discussed in this paper. Firstly, what is needed is clarity of objectives. The view of the Washington Consensus is that efficiency should be the overriding objective (Kikeri et al, 1992). This

[20] In Mexico all but one of the large scale privatisations were sold to a group of 37 businessmen who between them controlled 22% of the country's GNP (Hildyard 1997).

obsession with efficiency contrasts with the Japanese critique of the Washington Consensus, that recommends rather that the emphasis should be on developmental priorities (OECF, 1998). The Post-Washington Consensus offers a more realistic and careful foundation for the design of enterprise restructuring and privatisation policies, but remains limited.

Once priorities are established, a more imaginative approach is required. Much of the Washington Consensus literature makes a leap from discussion of wider objectives to detailed implementation procedures that focus on detailed legal and financial issues (eg Campbell-White and Bhatia, 1998). Privatisation agency staff are usually experienced in industrialised country privatisation which means that wider economic, social and political issues are not addressed in LDC privatisation programmes.

The Japanese critique of structural adjustment argues that rather than seeking uniformity in policy solutions, the development community should seek consensus in methodological approaches to analysing problems of developing countries. The solutions should then be case specific. This approach would be well suited to privatisation. In this context, the specific problems of an enterprise need to be established and the means by which these can be overcome (Ohno, 1998).

In the same way that Lall (1995) argues for active preparation for liberalisation reforms, preparation is needed for privatisation. Widespread liberalisation exposed all enterprises to competition from imports. This approach has wiped out potentially profitable as well as inefficient industry, in Sub-Saharan Africa and in Eastern Europe (Lall, 1995; Amsden et al, 1994). In current privatisation programmes, domestic investors and enterprise managers will not be able to participate and extensive preparation is needed. The risks and benefits of privatisation need to be clearly established in the case of each enterprise (or group of enterprises), taking account of the distributional impact. It may be that some form of partnership with the private sector will be beneficial for an enterprise, or it may be more suitable for it to remain in the public sector as an autonomous entity, possibly hiring in specialist expertise.

Privatisation should fit within a carefully considered, selective policy package for enterprise development. Once such a package is designed, then a complex competition policy may be designed, rather than the blanket application of a single, simple competition policy.

The Post-Washington Consensus stressed the importance of legislative regulation, but this is an issue that is complicated by technical capabilities and by the political settlement. However, beyond this, and not mentioned by Stiglitz at all, privatisation should be accompanied by promotion of voice regulation, not just to achieve consensus and not just to encourage the collective voice of industrialists, but to encourage the voice of employees and others affected by privatisation.

References

Adam, Christopher, William Cavendish and Percy Mistry (1992), *Adjusting Privatisation: Case Studies from Developing Countries*, James Currey: London and Heinemann: NY.

African Development Bank (1997), *African Development Report 1997: Fostering Private Sector Development in Africa*, OUP: Oxford.

Amsden, Alice H., Jacek Kochanowicz and Lance Taylor (1994), *The Market Meets Its Match: Restructuring the Economies of Eastern Europe*, Harvard University Press: Cambridge, Mass.

Amsden, Alice (1997), "Editorial: Bringing Production Back in Understanding Government's Economic Role in Late Industrialization", *World Development*, Vol.25, No.4, pp.469-480.

Aryeetey, Ernest (1994), "Private Investment Under Uncertainty in Ghana", *World Development*, Vol. 22, No. 8, pp.1211-1221.

Babai, Don (1988), "The World Bank and the IMF: Rolling Back the State or Backing its Role" in R. Vernon (ed.), *The Promise of Privatization: A Challenge for American Foreign Policy*, Council on Foreign Relations Books: NY.

Barad, Robert (1994), "Privatization of State-Owned Enterprises: the Togolese Experience", Ch.9 in Grosh, B and R.S. Mukandala (eds.), *State-Owned Enterprises in Africa*, Lynne Rienner Publishers.

Bayliss, Kate (1998), "Privatisation in Ghana: post-privatisation response of enterprises", fieldwork report, School of Oriental and African Studies: London.

Bayliss, Kate and Ben Fine (1998) 'Beyond Bureaucrats in Business: A Critical Review of the World Bank Approach to Privatization and Public Sector Reform' *Journal of International Development* Vol. 10, pp. 841-855.

Bellin, E. (1994), "The Politics of Profit in Tunisia: Utility of the Rentier Paradigm?" *World Development*, Vol. 22, No.3, pp-427-436.

Bennell, Paul (1995), "British Manufacturing Investment in Sub-Saharan Africa: Corporate Responses During Structural Adjustment", *Journal of Development Studies*, Vol.32, No.2, pp.195-217.

Bennell, Paul (1997), "Privatization in Sub-Saharan Africa: Progress and Prospects during the 1990s", *World Development*, Vol.25, No.11, pp.1785-1803.

Bennell, Paul (1998), "Fighting for Survival: Manufacturing Industry and Adjustment in Sub-Saharan Africa", *Journal of International Development*, Vol.10, pp.621-637.

Berg, Elliot (1994), *Privatization in Sub-Saharan Africa: Results, Prospects and New Approaches*, DAI, Maryland.

Campbell-White, Oliver and Anita Bhatia (1998), *Privatization in Africa*, World Bank: Washington, DC.

Journal of International Development, Vol.9, No. 6, pp.865-875.

Chang, Ha-Joon and Robert Rowthorn (1995), "The role of the State in Economic Change: Entrepreneurship and Conflict Management", Ch. 2 in Chang and Rowthorn (eds.), *The Role of the State in Economic Change,* UNU/WIDER Studies in Development Economics, Clarendon Press: Oxford.

Chu, Wan-wen (1997), "Causes of growth: a study of Taiwan's bicycle industry", Cambridge Journal of Economics, Vol.21, pp.55-72.

Commander, S. and T. Killick (1988), "Privatisation in Developing Countries: A Survey of the Issues" in P. Cook and C. Kirkpatrick (eds.) *Privatisation in Less Developed Countries,* Harvester Wheatsheaf: Hemel Hempstead, Ch. 4, pp.91-124.

Cook, P. (1997), "Privatization, public enterprise reform and the World Bank: Has Bureaucrats *Journal of International Development,* Vol. 9, No. 6, pp.888-897.

Cook, P. and C. Kirkpatrick (1995), "The Distributional Impact of Privatization in Developing Countries: who gets what and why", Ch.2 in Ramanadham, V.V. (ed.), *Privatization and Equity*, Routledge: London and NY.

Cornia, Giovanni Andrea (1998), "Convergence on Governance Issues, Dissent on Economic Policies", *IDS Bulletin*, Vol.29, No.2, pp.32-38.

Cornia, G.A. and G.K. Helleiner (1994), "Introduction", in Cornia and Helleiner (eds.), *From Adjustment to Development in Africa: Conflict, Controversy, Convergence, Consensus,* Macmillan Press.

Cramer, Christopher (1999), "Can Africa Industrialise by Processing Primary Commodities? The Case of Mozambican Cashew Nuts", *World Development*, Vol.27, No.7, pp.1247-1266.

Cramer, Christopher (forthcoming), "Privatisation and Liberalisation in Mozambique: A 'Hospital Pass'?", *Journal of Southern African Studies*.

Evans, Alison and Mick Moore (1998), "Editorial Introduction: The Bank, the State and Development; Dissecting the 1997 World Development Report", *IDS Bulletin* Vol.29, No.2, pp 3-13.

Fafchamps, Marcel (1997), "Introduction: Markets in Sub-Saharan AfricaF" *World Development,* Vol.25, No.5, pp.733-734.

-137 in *How does Privatization Work? Essays in privatization in honour of Professor V.V. Ramanadham,* Bennett (ed.), Routledge: London and New York.

Grosh, B (1991), *Public Enterprise in Kenya: What works, what doesn't and why* Lynne Rienner Publishers: Boulder and London.

Grosh, Barbara (1994), "Kenya: A positive Politics of Parastatal Performance" in Grosh, B and R.S. Mukandala (eds.), *State-Owned Enterprises in Africa*, Lynne Rienner Publishers Inc.

Helleiner, G.K. (1994), "From Adjustment to Development in Sub-Saharan Africa: Consensus and Continuing Conflict", in Cornia and Helleiner (eds.), *From Adjustment to Development in Africa: Conflict, Controversy, Convergence, Consensus*, Macmillan Press.

Hildyard, Nicholas (1997), *The World Bank and the State: a Recipe for Change?* Bretton Woods Project, London.

Hoshino, Taeko (1996), "Privatization of Mexico's Public Enterprises and the Restructuring *The Developing Economies*, Vol.34, No.1, March 1996.

Khan, M. (1995), "State Failure in Weak States: A Critique of New Institutionalist Explanations", in J. Hunter, J. Harriss and C. Lewis (eds.), *The New Institutional Economics and Third World Development*, Routledge: London.

Kikeri, Sunita, John Nellis and Mary Shirley (1992), "Privatization: The Lessons of Experience", World Bank: Washington, DC.

-Owned Enterprises", World Development, Vol.27, No.1, pp.169-200.

OECF (1998), “Issues Related to the World Bank’s Approach to Structural Adjustment: A Proposal from a Major Partner”, Ch.3, pp.61-69 in Ohno and Ohno (eds.), *Japanese Views on Economic Development: Diverse Paths to the Market*, Routledge: London and New York.

Ohno, Kenchi (1998), “Overview: Creating the Market Economy”, Ch.1, pp.1-50 in Ohno and Ohno (eds.), *Japanese Views on Economic Development: Diverse Paths to the Market*, Routledge London and New York.

Oshikoya, T. W. (1994), “Macroeconomic Adjustment and Domestic Private Investment in Selected African Countries”, Ch.7 pp137-151 in G. A. Cornia and G K Helleiner (eds.), *From Adjustment to Development in Africa: Conflict, Controversy, Convergence, Consensus*, Macmillan Press.

Pack, Howard (1993), “Productivity and Industrial Development in sub-Saharan Africa”, *World Development*, Vol.21, No.1, pp.1-16.

Palma, Gabriel (1998), “Three and a half cycles of ‘mania, panic and [asymmetric] crash’: East Asia and Latin America compared”, *Cambridge Journal of Economics*, Vol.22, No.6, pp.789-808.

Pinheiro, A.C. and F. Giambiagi (1994), “Brazilian Privatization in the 1990s”, *World Development*, Vol.22, No.5, pp.737-753.

Polanyi, K. (1944), *The Great Transformation: the Political and Economic Origins of Our Times*, Rinehart: NY.

Pritchett, L. (1996), “Measuring outward orientation in LDCs: Can it be done?”, *Journal of Development Economics*, Vol.49, pp.307-335.

Ramamurti, Ravi (1991), “The Search for Remedies” in R. Ramamurti and R. Vernon (eds.), *Privatization and Control of State-Owned Enterprises*, The World Bank: Washington, DC.

Ramamurti Ravi (1996a), "The New Frontier of Privatisation", in R Ramamurti (ed.), *Privatising Monopolies: Lessons from the Telecommunications and Transport Sectors in Latin America*, Ch.1, John Hopkins University Press.

Ramamurti, Ravi (1996b), “Telephone Privatisation in a Large Country: Mexico”, in R Ramamurti (ed.), *Privatising Monopolies: Lessons from the Telecommunications and Transport Sectors in Latin America*, Ch.1, John Hopkins University Press.

Ramamurti, R. (1997), “Testing the Limits of Privatization: Argentine Railroads”, *World Development*, Vol.25, No.12, pp.1973-1993.

Sender, John (1998), “Analysis of Sub-Saharan Africa’s Economic Performance: Limitations of the Current Consensus”, mimeo, School of Oriental and African Studies.

Severn, Luis and Andres Solimano (1992), “Private Investment and Macroeconomic *The World Bank Research Observer*, Vol.7, No.1, pp. 95-114.

Shair, Osama Abu (1997), *Privatization and Development*, MacMillan Press.

Shirley, Mary and John Nellis (1991), *Public Enterprise Reform: The Lessons of Experience*, EDI Development Studies, World Bank: Washington, DC.

Stiglitz, Joseph (1994), *Whither Socialism?*, MIT Press: Cambridge, MA and London.

Stiglitz, Joseph (1996), "Some Lessons from the East Asian Miracle", *World Bank Research Observer*, Vol.11, No.2, pp. 151-77.

Stiglitz, Joseph (1997a), "An Agenda for Development in the Twenty-First Century", Speech Washington.

Stiglitz, Joseph (1997b), Workshop on Issues of Reform and Development in China, Tokyo, Japan, December 12.

Stiglitz, Joseph (1998a), "More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus", The 1998 WIDER Annual Lecture, January 7th, UNU/WIDER: Helsinki.

Stiglitz, Joseph (1998b), "The East Asian Crisis and Its Implications for India", Speech - Conference on Asset Distribution, Poverty and Economic Growth, Brazil, July.

Stiglitz, Joseph (1998c), "Creating Competition in Telecommunications", Speech at the Conference on Managing the Telecommunications Sector Post-Privatization, The George Washington University, Washington, DC, April.

Stiglitz, Joseph (1998d), "Towards a New Paradigm for Development: Strategies, Policies, and Processes", given as the 1998 Prebisch Lecture at UNCTAD, Geneva, October 19th.

Stiglitz, Joseph (1999), "Whither Reform? Ten Years of the Transition", paper presented to the Annual Bank Conference on Development Economics, April 28-30th, Washington, DC.

Tangri, R. (1995), "The Politics of Africa's Public and Privat *Journal of Commonwealth and Comparative Politics*, Vol.33, No.2, pp.169-184.

UNCTAD (1998), *Trade and Development Report, 1998*, Geneva.

van Cranenburgh, Oda (1998), "Increasing State Capacity", *IDS Bulletin*, Vol.29, No.2, pp.75-81.

Vickers, J. and G. Yarrow (1988), *Privatisation: An Economic Analysis*, MIT Press, Cambridge, MA.

Wallace, (), "

Weeks, J. (1994), "Fallacies of Competition: Myths and Maladjustment in the 'Third World'", Inaugural Lecture, School of Oriental and African Studies, University of London: London.

World Bank (1981), *Accelerated Development in Sub-Saharan Africa*, World Bank: Washington, DC.

World Bank (1994), *Adjustment in Africa: Reforms, Results and the Road Ahead*, A World Bank Policy Research Report, OUP: Oxford and Washington, DC.

World Bank (1995), *Bureaucrats in Business: The Economics and Politics of Government Ownership*, OUP: Oxford.

World Bank (1996), *World Development Report 1996: "From Plan to Market"*, World Bank, Washington D.C.

World Bank (1997), *World Development Report 1997: "The State in a Changing World"*, World Bank, Washington D.C.

Yamin, Mo (1998), “The dual risks of market exchange and the transition process”, in Cook, Paul, Colin Kirkpatrick and Frederick Nixson (eds.), *Privatization, Enterprise Development and Economic Reform: Experiences of Developing and Transitional Economies,* Edward Elgar: Cheltenham.