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Review Article

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Naturally, this development has drawn the attention of social science. Also in Scandinavia, where privatization measures have so far been more limited than in, for example, Great Britain, scholars have discussed the issue (Kristensen 1982, 1984; Kielland 1984, 1986; Lorentzen 1984, 1987; Ståhlberg et al. 1987; Lane 1989). Indeed, there is now such a large international literature on privatization that any attempt to make a comprehensive review is futile. Here, I will try to characterize what I see as the main dimensions of this literature, and point to some problems particularly suitable to continued research activities by political scientists.

The body of literature can be looked upon along at least three different lines or dimensions. First, there is the *purpose* of the authors; some of them are explicitly *normative*, while others show a more *empirical* inclination. The early literature in particular is definitely out to prove the case of privatization by way of argument, while the more recent books use empirical evidence to evaluate the possible merits of privatization.

Second, there is the breadth or *scope* with which the subject is treated. Some of the literature focuses on a discussion of the comparative advantages of private and public organization of goods production and/or service provision in terms of effectiveness and efficiency, ignoring other alleged or assessed consequences of privatization. For lack of a better term, we may call this perspective *internal*, in contrast to books which widen the scope to include other, more *external* effects of privatization, e.g. on social justice, democracy, and the distribution of power in society.

Third, there are differences with respect to *subject matter*. While some books treat all the main strategies of privatization – denationalization, deregulation, and service transfers – others concentrate on one or the other of the three. A somewhat daring generalization is that economists have been particularly interested in the sale of publicly owned firms and corporations, while scholars from other social sciences dominate in the studies of deregulation and service transfers.

The *normative-internal* work on privatization is particularly linked to economists and think-tanks of the Neo-liberal persuasion, like the US Heritage Foundation, Reason Foundation, Cato Institute, and Council on Municipal Performance, as well as the British Adam Smith Institute. Savas is perhaps the best known of the pro-privatization authors, but Fitzgerald and Pirie have been very active in promoting these ideas too. Underlying all of their work is the idea that governmental responses are dysfunctional, not just because government is inefficient and costly but also because it reduces personal initiative and the capacity of people and organizations to provide for themselves. Since the state sector seems to grow uncontrollably, it must be replaced.

Thus, the recommendation is privatization; private sector operations outperform their public counterparts because they are subjected to economic disciplines not present in the state sector, and they respond to consumer choice. Savas argues that it is inherently wrong to conclude that a service not provided by the market *must* be provided by the public sector. The organization *paying* for a service need not be the same as the one responsible for *arranging* that service or the one actually *delivering* it. These responsibilities can, so he argues, be separated through arrangements varying from purchase of service contracts to government service vouchers. Fitzgerald points to spontaneous private initiatives as a correction to public sector failures by describing a number of situations where poor people, suffering under insensitive and unresponsive public bureaucracies, have gone together and helped themselves without public interference and money. Pirie, who happens to be President of the Adam Smith Institute, explicitly points to this 'snowball' effect of privatization; as individuals and consumers experience the benefits of private alternatives, they will develop a vested interest in such solutions, thus helping to diminish permanently the overall scope of state involvement in the economy.

To advocate is to use arguments and evidence to support one's case. Thus, these books are clearly biased. The evidence used is such as to support the argument; discriminating evidence is either dismissed or overlooked. More seriously, however, is how they fail to properly recognize the underlying assumption of their efficiency and effectiveness argument, and to treat the problem accordingly. I think here of the necessary existence of a competitive market; without such a market, the alleged superiority of private solutions tends to disappear. Furthermore, the comparative advantage of the private over public provision cannot be taken as given; faced with budget cuts and austerity measures, many public sector agencies have become so efficient and so entrepreneurial as to compete effectively with private sector forms over a wide range of services.

A less biased and more *empirical* view on these *internal* issues is found in the Kay et al. and Hula volumes. On the basis of several case studies, the former argues that the economic performance of all firms – both public and private – is improved by a competitive environment, and that under competition, private firms are likely to do somewhat better. But where competition is absent, there can be no presumption in favour of private companies. Thus, denationalization in itself will not improve efficiency in the companies sold; only if they come out of the cold and into a competitive environment will performance increase. Therefore, the Kay volume argues, deregulation of (natural) monopolies is the foremost strategy if the goal is efficiency. The volume also argues that in order to gain efficiency it is necessary to secure that competitive bidding prevails when earlier publicly produced services are contracted out.

In the Hula volume, Hill et al. state four conditions which must be met in this regard. These include: (1) availability and competition among a relatively large pool of bidders; (2) fully specified services, client targets, and service standards; (3) monitoring of contract provisions, and (4) explicit rules of deciding bid selection. The authors find that when these conditions are met, care service rates decline with potential cost savings for the public sector (for the cost savings argument, cf. Rothenberg Pack 1989). Most of the Hula volume is devoted to analyses of the market as a strategy of implementing *public* policy. It is particularly stressed that such strategies should not be seen as an all-out privatization; efforts to utilize markets do not imply a total rejection of the political process. Strategies studied include private insurance, contracting out of public service production, public–private co-production, subsidies, and 'market analogs'. An interesting example of the latter category is Liroff's discussion of 'marketable pollution permits'.

Hula's remark about utilizing markets as part of the political process clearly relates to a more inclusive and *external* perspective on privatization. One of the first, but still most important works in this tradition is Le Grand's and Robinson's volume on privatization and the welfare state. In their introductory chapter, Le Grand and Robinson widen the scope of analysis to include not just privatization and efficiency, but also its impact on equality, liberty and what they call community. The reader used to the Scandinavian debate over the consequences of the welfare state to these values will find the reasoning familiar, as exemplified by the editors' argument that whether or not public or private provision of welfare infringes upon an individual's freedom depends very much on the definition of freedom chosen.

The perspective throughout most of the contributions is much more analytical than in the *normative-internal* debate; nowhere does one find a value-based adherence to either the public or the private alternative.

In fact, a major merit of this volume is that the contributors problematize the privatization issue in several respects. Alan Walker points out that there has always been a *mixed economy* of the welfare state not corresponding to the dichotomized view found in much of the *normative-internal* debate. He also widens the discussion of consequences, arguing that the *social* costs of privatization – like inequality and social segregation – cannot be accepted. Several authors look for alternatives to market solutions. Some examine the alternative of *voluntary* organizations, backed by public support and regulations. David Donnison takes an *institutional* perspective, pointing out that such alternatives as *decentralization and local public initiatives* are preferable to privatization, particularly in that they provide mechanisms of accountability.

Much of the discussion in the Le Grand–Robinson volume is based on sketchy and incomplete information about the processes and consequences of privatization. However, there are now several books which provide a comprehensive empirical evaluation of privatization strategies, from contracting out of public services over the sale of public housing to denationalization of industries and deregulation of monopolies.

Kate Ascher's comprehensive examination of contracting out and competitive tender is well researched. It is highly informative, and provides an interesting analysis also of the political and institutional aspects of the issue. She points out that contracting out is an old strategy, used also before the Thatcher government made it a salient political issue. Evidently the public-service strikes in the winter of 1979 helped propel mandatory tendering to the centre of the national political agenda. She also provides an insightful analysis of the major interests involved, i.e. the relevant contract industries, and the public sector trade unions, and shows how these groups interact in the often complex processes of local tendering.

Ascher's most important contribution comes at the end, when she not only carries out an *internal* assessment of the pros and cons of contracting out and competitive tendering in the light of her empirical findings, but also points to some *external* political implications. In her view, competitive tendering has shown that there was room for improvement in local services. However, it has not demonstrated the virtues of the private over the public sector, as Conservatives hoped. These privatization strategies appear to work best in non-political environments, and in response to local needs, i.e. where the motivation comes from the 'bottom up', not from the 'top down'. She shows how the Thatcher Government's ideological approach led to highly politicized methods of implementation. The centralist and paternalistic approach of that Government caused dissatisfaction among contractors, intense trade union hostility, and a protective attitude among administrators, all of which compromised the technical and administrative virtues of the privatization strategies.

In fact, many students of British politics during the Thatcher era point to the rapidly changing political landscape as an effect of privatization. It has meant a dismantling of local government powers in favour of an all-powerful central government. Furthermore, and perhaps surprisingly, privatization seems to be linked to a development towards *more* rather than less governmental involvement; central regulation is looming larger and larger in many policy areas.

In the Thatcher drive to sell public rental housing to sitting tenants, the strengthening of central government authority over local councils was part and parcel of the strategy. Local councils would no longer have the privilege of deciding for themselves whether to sell or not; the sitting tenant could now force councils to sell by exercising the legal Right to Buy. To this was added changes in rent-setting procedures, which in fact gave central government the last word on rent levels in each local council.

Forrest and Murie provide a well-documented tale of the fate of Thatcher's council house sales programme. They set out to show how the original objectives of (a) extending freedom of choice in housing, (b) redistributing wealth, and (c) reducing the power and control of government have fared in the implementation process. To the Conservatives, freedom of choice really meant increased home ownership. Since 1979, over one million dwellings were sold to sitting tenants. As much as this increased home ownership, however, other measures discriminated public housing and led to an absolute decrease in the council housing stock, thus diminishing freedom of choice for many households. Indeed, the authors consider recent changes in housing legislation – transfer of whole public housing estates to private landlords, increased rebates to individual buyers – as an expression of fiscal rather than housing concerns; the government has come to rely heavily on receipts from sales as a means of balancing the budget. Forrest and Murie also go to some length in demonstrating that the distribution of wealth has not become more equal or widespread as a result of council house sales. They have benefited one generation of tenants who happened to live in the right kind of housing at the right time. The socioeconomic effects of the sales programme are a residualization of council housing, with a further concentration of pauperization, deprivation and powerlessness on the remaining council estates.

But has not the Right-to-Buy policy led to less governmental interference and control over housing? Forrest and Murie's conclusion is to the contrary; they find overwhelming evidence that sales are nothing more than one episode in a procession of legislative and policy measures designed to effect increased central control over local authorities. They offer a strategic and ideological explanation; sales may have been designed as part of a grand strategy to win the middle classes and to bring them safely inside the fortress of a property-owning democracy. But they are also symptomatic of a hardening Conservative world view, where groups are divided into 'deserving' and 'undeserving' categories.

One might ask whether any regulatory activity would be necessary if privatization is mainly directed towards the 'deserving' sections of the population, i.e. to those who in the government's view have the 'right' view towards markets, competition, and achievement. Would it not be a contradiction in terms to increase regulatory control over firms and companies denationalized and/or deregulated precisely in order to make them more free to operate according to market principles?

There are several books on the privatization strategy of denationalizing industries or, more generally, selling public assets. Readers who want a factual, up-to-date account of how far this process has spread from West to East(!), and what directions it has taken in Britain and other countries, should consult Fraser's volume. For those who want a *normative-internal* view of the 'dynamics of a movement which has, by any account, been one among the most radical in modern economic history', should go to the Letwin volume. At any rate, the title is telling.

In his book on sales of nationalized British industries, Veljanovski first gives an overview of how privatization came to occupy such a central place on the Conservative agenda, and how sales of industries have proceeded. But he also devotes a whole chapter to the issue of regulation, finding that contrary to expectations there has been a development of a whole new structure of regulation for both the industries sold out and for those 'deregulated'. Indeed, the extent of institutional change brought about by the Thatcher Government goes far beyond formation of a few new regulatory agencies. It has shifted the territory occupied by government, and changed the whole relationship between government and industry in a more legalistic direction. The state no longer acts as a producer but rather as a 'protector' whose main function is to ensure that business plays according to the agreed rules of the game.

So far the reader may have noted that the literature going beyond the strictly *internal* towards a more inclusive and *external* perspective seems to do so mainly by taking a policy analysis or policy evaluation path. With Ascher's book as an exception, the volumes cited here do not seem overly interested in the *politics* of privatization. However, if one goes to the literature on deregulation, the Robyn and Brown books provide some interesting reading.

Brown's perspective is one of challenging the traditional view of regulatory change as something very difficult to achieve because of the pressure towards status quo levied by the regulatory agency and its clients. Starting from the premise that regulatory agencies base their actions on analysis and judgment rather than on being the captives of the regulated industry, he is able to show that the Civil Aeronautics Board was indeed about to launch a deregulatory strategy by the 1970s. What took the initiative out of CAB's hands was an unholy coalition of pro-deregulation conservatives *and* liberals who viewed CAB as anti-consumer and anti-competitive. Thus, what CAB was about to achieve on its own was put to the centre of the legislative arena by particular political circumstances.

Robyn's work is a similar picture of political forces abandoning the regulatory agency. Here, policy and personnel changes at the Interstate Commerce Commission left client organizations with the impression that they would have more to lose from going along with the traditional administrative regulation than to opt for new legislation. As it happened, there was a coalition in favour of deregulation which spanned both business and consumer groups. Thus, with everybody in favour, deregulation could easily have its day. Given the book's title, one might conclude that Robyn alludes to the possibility that special interests – given the political situation – could sometimes take deregulation too far.

The impression one gets from the literature on privatization is that there are three rather distinct patterns. At the risk of oversimplifying, one could say that these patterns also represent a developmental sequence. First, we have found the pattern of *exhortation*, represented by those authors mainly interested in proving that judged by such *internal* criteria as effectiveness and efficiency, private production of goods and private provision of welfare services are superior to public alternatives. Second, there is a pattern of *evaluation*. Several books widen the analysis of privatization to include such criteria as social justice and the distribution of power in society. They often limit themselves, however, to a *policy* perspective, taking the political decision to privatize more or less as given.

This should not obscure the fact that there are signs of a third pattern in such endeavours, one can discern two lines of argument. One stresses the importance of *ideology*; invoking the tale of the two Conservatives – Thatcher and Reagan – as evidence that a firm ideological stance is behind the movement towards privatization. Another points to the *economic* and *fiscal* factors, primarily by pointing to the coincidence of economic and fiscal austerity and the emergence of privatization in many countries, but in some cases also to longer-term, *institutional* weaknesses as conducive to welfare state contraction (Dunleavy, forthcoming).

There is clearly room for further research to explain the phenomenon of privatization. Even if there has been an international wave of neo-liberalism, and a period of fiscal austerity in the industrialized world, we would still want to know what difference *politics* makes in the rate of acceptance and range of adoption of privatization measures. Does it matter how strong the Left is politically? And is the institutional pattern of the existing welfare state of any significance, e.g. the degree of regulatory agency independence, and the presence of organized interests in the implementation process? In looking at such issues, scholars viewing privatization as 'welfare state contraction' could learn a lot from those who have tried to explain the emergence and expansion of the welfare state.

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