

# 95 Privatization of Public Services beneficial or Detrimental to developing Countries?

## Outline.

### 1 Introduction.

### 2 How is it beneficial?

A Increases Efficiency

B Reduces Corruption

C Attract the local and foreign investment.

D Focus on Core governance

E Reduces the political interference

F Reduction in Fiscal burden

### 3 How Privatization is Detrimental

A Increases Unemployment

B Inequality and Accessibility issues

C Fear of Monopoly and Exploitation.

### 4 Conclusion.



# Essay

Privatization is the process of shifting public services from being owned by the government towards the ownership of any private sector. In developing countries, the phenomenon of privatization is oftenly discussed. Some sectors consider it beneficial for the economy. But at the same time, there are some critics of the privatization too, who consider this process as detrimental for the economies of developing nations. As someone aptly says "The private sector is the engine of growth and Privatization is the



that keeps it running."

This quote depicts that the privatization is beneficial for the developing nations. Firstly, the privatization increases the efficiency and quality of services. Secondly, privatization has the ability to attract the local and foreign investment. There are many examples in the past where it really attracted the investment from both the local and foreign sector. Thirdly, it reduces the chances of corruption and also make the state enable to divert its focus towards another issues that need the attention of the state. Moreover, when any public services is shifted towards private ownership, the chances of political interference reduces.



transparency and merit-base selection increases. Lastly, the process of privatization results in reduction of fiscal burden. However, there is not anything in this world that is without any faults or demerits. The process of privatization has also some demerits according to the opponents of privatization. The opponents of this process argue that privatization will increase unemployment as it will result in job loss. Moreover the accessibility of general masses to the service also increases. Lastly, the fear of monopolies grows and a probability of exploitation increases.

To begin with, the foremost benefit of



Privatization is that it increases the efficiency of services. As the private sectors run their services from business stand point, so they have to ensure the efficiency and good quality of their services. For instance, one can see the clear difference between the services of National Bank of Pakistan (NBP), which is a state owned bank, and any other private bank. In the same way any such entity that is not performing well should be shifted to private sector and its efficiency would be surely improved. Here the difference of quality of education between a government and private school is



another proof of this fact that the private owned services are more efficient and ensure good quality of their services. Briefly put it, the process of privatization increases the efficiency and quality of services.

Secondly, there is also a possibility that privatization has the potential to attract the local and foreign investment. As the efficiency and quality of the services increase, so does the trust of investors. Here one can see that PTEL, when was shifted to private sector, attracted the foreign investment.

**Etisalat** which is a foreign company invested



in the P.T.C.L. Moreover, the private electricity generator K-electric also welcomed the investment. The developing countries like Pakistan, which is facing severe economic crisis and is unable to attract the investment from local and foreign investors, should shift its services to private sectors. ~~The~~ It will surely attract the investment and help the country to come out of these challenges. It means that privatization could be the tool to attract the foreign investment. Proceeding ahead, another factor that makes privatization beneficial for the developing nations is that it reduces corruption. As everyone knows that in



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a country like Pakistan, every state-owned department is facing immense corruption and there is no one who can question the state.

As so the process of privatization could ensure the transparency as the private companies ensure transparency and accountability to gain maximum profit out of their services.

As Friedrich Hayek says;

**"Public ownership often leads to inefficiency; Privatization ensures accountability and competition."** The transparency

could make anything more efficient and profit-making. The private enterprises are driven by profit motives, so they have to ensure transparency.

In short, the process of privatization reduces corruption and ensures ~~accounta~~ transparency.



through accountability.  
likewise, another  
benefit of the privatization  
is that the government  
can pay its focus and  
attention towards another  
issues. Apart from some loss-  
making entities, there are  
some other sectors that  
demand the immediate  
attention from the state.

For instance, the education,  
healthcare and inflation, that  
should be handled with  
seriousness. Privatization makes  
the state enable to  
focus on core governance.

Moreover, the governments  
can focus on their primary  
responsibilities, such as policymaking,  
law enforcement and social  
welfare rather than managing  
businesses. Especially the country  
like Pakistan, where the



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the terrorism and militancy are on a surge again, the state should shift its focus towards the law and order situation. Moreover, the better law and order situation could make the environment friendly for investment. Hence the privatization makes the government enable to shift the focus on core governance.

Furthermore, the process of privatization reduces the political interference and indifferences. For instance, in Pakistan, there is political interference in each and every state-owned departments. In each such department all kinds of appointments, removal or promotions are politically motivated. All the



State owned departments are directly or indirectly influenced by the politicians or the government. It automatically reduces transparency making the department aloof from merit. As a result many incompetent candidates are selected and many deserving candidates ~~are~~ remain devoid of their right. So the process of privatization has the potential to curb this culture and to ensure transparency resulting in the improved performance of any department.

The privatization also results in reduction of fiscal burden. As all the state-owned services whether it be PSA or government schools or any other such departments all are



loss making. So they are  
burden on the country  
and state as well.  
To shift these departments  
and services to any  
private sector, will reduce  
the fiscal burden of  
the state. Selling government-  
owned enterprises, reduces  
government expenditure on  
subsidies and bailout. Moreover  
the funds generated from  
private sectors can be  
invested on education,  
health and on other  
sectors. In short, the process  
of privatization will not  
only ensure the investment  
but also reduces the  
state's fiscal burden.

These above-  
mentioned facts depicts that  
the process of privatization  
is beneficial for the



economies of developing nations. But the critics of privatization argue that the process is detrimental to the economies of developing nations. They have their own reasons to prove their point.

Firstly, the opponents of privatization argue that the process creates the job losses and increases the unemployment. Unemployment is a serious concern for all the nations. Some countries are dealing with it successfully; but by introducing some measures to reduce the unemployment ~~corruption~~. But the countries like Pakistan are still struggling to handle the issue of mass unemployment. So the privatization will make the situation more



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Worse. As the private companies run their business by profit motives, they try to maximize the efficiency and to reduce the workforce. To cut costs, private companies may implement workforce reduction, leading to unemployment and social unrest. So the employees of state-owned enterprises may feel job insecurity and can lose the jobs. To conclude there is a possibility that unemployment rate would increase after privatization.

Secondly, it could result in inequality and accessibility issue. The access of general masses to any state-owned service is easy. All the state-owned departments are



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easily accessible to the public. But privatization can lead to high costs for essential services making them unaffordable for the public. The sole concern of private enterprises is to make profits, they neglect the concerns of general public and make their services inaccessible for the common public. It means that privatization reduces the accessibility of the common public.

Lastly, they argue that the fear of monopoly increases. Monopolies and exploitation could increase and can create social unrest. The privatization creates monopoly in such a way that there are possibilities that any state-owned service when



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shifted to private enterprisers  
it could make more  
profit, leaving behind all  
other entities and can  
exploit the other  
entities as well.

gn a ~~rust~~  
nutshell, there are some  
circles of society which  
criticizes the process of  
privatization. They argue that  
it is detrimental to  
the economies of developing  
nations as it increases the  
unemployment. Moreover in  
a country where the  
people are facing some  
serious socio-cultural issues, the  
phenomenon of privatization  
can deepen the social  
unrest when the public is  
already finding it hard to  
survive in these times,  
~~top~~ of high inflation and



unemployment, the privatization could further reduce their accessibility to the basic and essential services. Moreover the process of privatization brings with it the fear of monopolies and exploitation.

But by witnessing the some examples from the past, the process of privatization could be considered as beneficial.

There are many benefits that it could bring for the developing nations as it has the potential to increase efficiency and quality of some services by reducing corruption and ensuring the accountability and transparency. Moreover it could be proved as a incentive for the investors to invest in the country.

The state can allocate



the budget to some  
other **fields** and it  
can reduce the budget  
finance burden. In short  
one can say that  
the process of privatization  
is beneficial as it  
could boost the economy

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