Introduction

In Economics, A natural monopoly can be defined as an industry where the fixed cost of the capital goods is so high that it is not profitable for a second firm to enter and compete. The reason is that the nature of that product or service makes a single supplier more efficient than multiple, competing ones.

The purpose of this essay is to discuss that the economic arguments for and against on privatizing a state run natural monopoly. You will find out on following contents.

Main body

Natural monopolies are typically utilities such as water, electricity, and natural gas. It would be very expensive to build a second set of water and sewerage pipes in a city. Because this sort of service has a high fixed cost and a low variable cost.
To prevent utilities from exploiting their monopolies with high prices, they are regulated by government sometime. Typically, they are allowed a fixed percentage of profit above cost. But this type of regulation can lead to inefficient high costs, since the monopoly is guaranteed a profit. To get around this problem, the government districts own the local utility and provide the service at cost. Another way to handle the natural monopoly is a significant shift of resources out of the state sector and into the private sector.

Many governments around the world have followed this policy.

For

State owned monopolies across the world have proven themselves unable to invest properly in infrastructure, they provide relatively expensive and inefficient services and have poor labour relations and offer poor customer service, perhaps combined with little or no incentives for goods management and staff.

The four main positive arguments on privatizing a state owned natural monopoly can be:

- improved efficiency,
- reducing the conditions term of fund
- greater government revenue,
- The benefits of wider share ownership.

The argument is based on cost efficiency. In general speaking, the firm will produce any given level of output at the lowest possible long-run average cost for that level of output. In other words, the firm will be on and under cost curve. Those who do not have success in the market have to leave. Consequently, labor productivity and efficiency will be higher than in public firms. This will lead to higher output in the economy, given the amount of resources employed.

Privatization is often claimed to improve cost efficiency. Nationalized industries suffer from low motive, so output is often lower; management had no incentive to reduce waste and improve cost efficiency because it will not be rewarded with increased profits. Only the incentive of improved rewards will reduce costs.

Privatization makes that possible. Efficiency can also increase because of access to capital markets.

When nationalized concerns ask for funds for investment, they have to go through government. Whether they will be given or not, not only depends on the worth of itself but also on the wider considerations of the Treasury's finances. In the private sector, industries such as gas and electricity will compete for funds on an equal position. If consumer demand is strong enough to request an investment, the funds will be given soon. The industry no longer has to concern complex relationships with the political problems which existing in state intervention, such as when governments are short of cash.

Another advantage is that the revenue is gained from the sale of the assets. It seems that the income generated will enable it to make a better investment. Government could use the sales revenue to build more public project, for example, hospital and school. However, the increase is more clear these assets from the government. Because the expected the revenue that will be produced in the form of profits or dividends. As we can see, the government is simply replacing earnings in the future with revenue now.

Logically, for maximizing revenue from the sale of assets, the assets should be sold to the highest bidder. However, in some countries the government has tended not to do this, and has sold shares to those employed in the industry. This clearly has a claim to be better from achieving the best price for the assets increased.

The forth benefit is that the wider spread of wealth ownership takes place. The long-term objective is to change attitudes to wealth creation through greater individual ownership of capital. However, it is extremely difficult to prove whether this has been happening actually.

Base on those arguments, privatization has resulted in the transfer of public sector monopolies into private hands. Therefore, Attention must be focus on the control of such industries, in order to avoid the exploitation of consumers. Nevertheless, there has been a sharp increase in the number of industries where firms have the power to exploit consumers.

In all above mentioned, there are no convincing economic reasons to maintain public ownership.

Against

However, the reality is slight different. Though privatization can be regarded as a success action in most cases, problems in the privatization process itself must not be ignored. In the following section, I will point out some of these difficulties.

Firstly, public enterprises have a natural monopoly, especially in the field of public utilities. As far as the government is interested in maximizing the proceeds from privatization, enterprise should be sold without introducing competition in the respective market. Then, this is conflicting with the objective to increase overall efficiency and to lower prices for the consumers.

Thus, the main problem in this field is not privatization, but introducing competitive structures. Originally, privatization does not lead to higher efficiency and higher welfare to consumers, if a public monopoly is only replaced simply by a private one.

Secondly, Market power of large privatized firms.
Usually, public owned enterprises are extremely big, especially, in cases of former natural monopolies. So they have enough market power to restrict market access of new entry, even after competition is installed formally. They can keep or limit retail prices for consumers.

A third problem is that it will be necessary to restructure public firms in order to make them fit for the market, as many state-owned enterprises are organized like a public authority and not like a business firm. As known, the relevant for market activities is often not available, in this context, there is the problem that many state-owned firms have own pension schemes that do not fit when tendency into private firms.

Another problem maybe the Possibility of higher cost curve due to lack of competition. The lack of competition leads private companies to raise prices, and consumers will suffer. Firm in the long run under perfect competition requires using the most efficient known technique and develops new technique. The monopolist, however, by barriers to entry and the lack of competition, they can still make large profit even if it is not using the most efficient technique.

The fifth issue is that unequal distribution of income and unfair. The high profits of monopolists may be considered as unfair, especially by completive firms, or anyone on low incomes on this matter

In addition to these problems and large monopolies may be able to bring political pressure and thereby get favourable treatment from government.

Outline

The most convincing reason for privatization seems to me to be the economic argument. In public enterprises, the main objective for employees is to maximize their own influence and their personal income. On the other hand, there is little or no risk to loose one's job, as the public owner of the enterprise will bear potential losses. The incentive to produce in an efficient, cost minimizing attitude is rather low. Additionally, there are no strong incentives to offer an attractive product or service to the costumer, as this does not improve on the individual employee. It is true with respect to innovation efforts. As a consequence, in many public firms cost is quite high, and productivity of labor is rather low. Consumers are in a disadvantage place in his way. Competing firms have to hold higher wage costs and/or lower prices. If they make losses, they have to leave the market, leaving the field to an inefficient enterprise.

It has been argued in some enterprises such water supply, electricity, and telecommunications will always remain monopolistic in

nature. It may not matter whether they are public or private. It is only in very large markets where there are sufficient economies of scale allowing for serious competition among privately owned utilities.

Conclusion

In conclusion, the arguments for privatising natural monopoly businesses are the same as for privatising any business. These monopolies usually dominate any nation's national economic efficiency, access to investment capital, innovative technology and effective management is even more important. Even after this kind of concern, we have to continue searching, through learning by doing, in order to reduce the power of monopolies on the daily lives.