

What are the reasons for governments to own business and assets? Why has privatization of public enterprise taken place? Should public housing and airport in Hong Kong be privatized?

Reasons for establishing public enterprise

Governments have established public enterprises for a variety of reasons. These can include inadequate private supply of goods and services; rescuing private firms if their closure is against the public interest; improving competition; reducing social costs such as environmental externalities; even to protect national sovereignty in some way.¹ In fact, there are ideological and practical reasons for maintaining public ownership, its rationale is as follows:

1) Ideological consideration

“Socialism” and “communism” are two modern ideologies for discussion of public ownership. Communism can be classified as one particular kind of socialism even though communist ideology differs very much from socialism. Socialists emphasis on the values of equality, social justice and cooperation while communist ideology is based on class struggle or hatred. However, both socialism and communism strongly reject the concept of privatization as it will create inequality and jeopardize social justice. They are in favor of the economic collective system, i.e. government and social ownership as the means of production and distribution.

2) Public Utility is crucial to the well being of citizens

A public utility is a business considered so important to the public welfare that it is subject to some form of government regulation or ownership. For example, the industries of railway, electric power, gas and waterworks. If being privatized, the company will be focused on ‘making profits’ rather than ‘serving the people’. Private firms may lack trustworthiness in taking care the people from lower income class. In this sense, public ownership is required to ensure accountability and public interests in particular the services or utility is crucial for citizens.

¹ Public management and administration, an introduction, (3rd edition), by Owen E. Hughes, pg 95.

3. Insufficient capital for investments

All public utilities require an enormous amount of investment, especially initial investment. For instance, the construction of an electric power company is very capital-intensive. The company has to spend a lot for the construction and maintenance of transmission towers, poles and power lines. Once it is in operation, it becomes continually cheaper to add extra consumers. It would be difficult for others to complete in the same area as the set up of another transmission towers, poles and power lines is considered to be wastage. Therefore, public utility companies have a tendency to become 'natural monopolies'. Besides, as public utilities require huge investment and take a number of years before they can recover their investments, private individuals may not be able to gather this amount of capital and has no interest to invest as it takes long to recover.

To tally with the ideologically consideration mentioned above, if these companies are owned by private enterprise, they can make lots of money due to their monopoly in nature. It is in fact inconsistent with the socialists' ideology for maintaining social equity and equality. The only possible way is for the government to own and run the industry. Even if the government makes some profits, they belong to public rather than the organization itself.

Why has privatization of public enterprise taken place?

Privatization encompasses that many ways in which the private sector assumes functions that were previously carried out by the government. These may range from the sale of public economic enterprises to contract with private firms to deliver public goods and services. In each case, the functions are transferred from public sector to the private sector. Generally speaking, the main reasons of privatization are as follows²:

1) Greater efficiency

In many cases, a government corporation is a monopoly type in nature.

² The rationale for privatization, by Prof.Dr. Coskun Can Aktan .
<http://www.canaktan.org/ckonomi/ozellestirme/aktan-makaleler-ceviriler/>

There is no competitor and therefore no comparison can be made as to its performance or efficiency. Privatization fosters competition and thereby results in efficiency and effectiveness within sectors. Consumers are free to choose and producers are also free to decide what to produce, how and when. “economic freedom”³ can be achieved by privatization and in turns brings efficiency and effectiveness.

2) Revealing the true and full cost of the service provided

Public enterprises provide goods and services are underpriced because of some political and economic reasons. Political reason is that politicians tend to provide services below its true cost as to maximize their votes to get reelected. Regarding the economic reasons, the public bureaucracy fails to determine the true demand of the individual, because of free rider problem. In a political market, there is no price signal. There is no competitive price to be used as a benchmark. The easiest way for the bureaucrat to compensate for this about consumer demand is to charge a low fee while subsidizing the service from the revenues of general account budget.⁴

3) Development of Capital Market

Another objective of privatization is to develop the capital market. The main purpose for establishing a capital market is to withdraw of the savings of individuals and private firms and to lead them toward productive investment fields. Privatization plays a vital role in fostering an equity market. Besides, it can also broaden the wealth and achieve widespread private ownership in society. This objective may be attained by selling ownership rights to the public and employees of public enterprises subject to denationalization instead of to a private firm.

4) Raising Extra-Revenues for the Government

To raise revenues for the government is one of the objectives of privatization. This strategy is important in particular when the government

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³ Steel, David R. and David A. Heald, “Privatizing public Enterprises: An analysis of the Government’s case” Political Quarterly, July-1982, pp333-49

⁴ Kent, Calvin A; “ Privatization of Public Functions: Promises and Problems: in: Calvin A.Kent (Ed) Entrepreneurship and the Privatizing of Government, London: Quorum Books, 1987

encounters a financial crisis. Generally speaking, taxes; collect user charges; borrow money from individuals by selling treasury bonds and encourage foreigners to invest in home country are some examples for the government to raise revenues. However, there is a limit to raise the taxes and money from both the domestic and foreign sources. Privatization becomes an important policy for the government to raise money.

5) Curbing Inflation

Privatization can be considered as a tool for curbing inflation. The reason is that public enterprises are usually seen as an important factor causing cost-push inflation as it does not work efficiently and effectively and is usually required supplementary funds from general account budget. Privatization eliminates the financial burden of public economic enterprises and hence may control the inflation.

6) Eliminating the problem of ‘featherbedding’

‘Featherbedding’ is quite a common problem in public corporation. Public corporations use to provide terms and conditions for employees above those which could be obtained elsewhere, including the employment of more staff than may be needed. In some situation, they may be used as a partial solution to unemployment problems. By privatization, the original five persons’ work done in government sector can be reduced to three. Cost can be eliminated and at the same time, enhance the productivity of an organization.

Should airport and public housing in Hong Kong be privatized ?

Generally speaking, “privatization” would make the organization more efficient and it appears to be the fastest way to help reduce a record budget deficit within a short period. As supported from an article on 16 Oct 03 in the Wall Street Journal “Hong Kong Plans Another Handover”, inside it describes Hong Kong’s privatization plans:⁵

“...the Hong Kong government plans to sell partial stakes or securitize

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⁵ The Wall Street Journal “Hong Kong Plans Another Handover” on 16 Oct 2003

revenues form major assets over the next 18 months, from its airport to its tunnels and even its housing department.... The programme could raise anywhere from \$14 billion to \$ 40 billion in coming years, depending on what goes on the block, and would put Hong Kong at the forefront of privatization efforts globally.”

It is an undeniable fact that the shift of ownership may immediately bring an attractive income to the government and release the heavy burden of the government. And, to a certain extent, may enhance the efficiency and effectiveness of the organization. However, whether the privatization process may bring a positive effect to the organization and economy is quite depended on the type of public utility itself.

Taking the privatization of HK International Airport as an example, tourism and logistics are two of the core elements of growth for Hong Kong economy within sectors. Overall visitor arrivals increased by 14.7% in the first quarter of 2004 to 4.94 million⁶. A boom in the tourism industry will improve overall market sentiment, stimulate local consumption, boost growth in related sectors and contribute to the creation of employment opportunities. In support of tourism development, to enhance service quality presently provided is essential to meet future challenges. Therefore, the involvement of the public sectors in the planning and development of the Hong Kong’s tourism and logistics infrastructure, services and facilities as well as the operation and management of port and airport is fundamental in maintaining Hong Kong’s position as the preferred international and regional transportation and logistics hub. However, the complete sale of all agency assets to private sectors may lead a potential rise in aircraft landing, fees and charges. The public, at the end, is suffered and has to share the additional costs under the free market discipline.

In the aspect of public housing, the cooperation with private sectors such as contractors, associated professional and technical personnel may help to improve the design and building development. This mode of operation may maximize quality of the work and efficiency. Also, the shift of the ownership from the government to private sectors or individuals may help to release the financial burden of the government and resolve the budget deficit. However, the dealing of Link Real Estate Investment Trust, comprising the Housing Authority’s retail

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⁶ Legislative Council of the HKSAR, Panel on Economic Services “Report of the delegation of the Panel to study overseas experience in port and airport management, airport privatization and theme park management in April 2004. <http://www.legco.gov.hk/yr03-04/English/hc/papers>

premises and parking, derailed by a last-minute lawsuit challenging the government's right to sell public assets. This privatization process arouses public concern as it being considered harming public interests as a whole. Secondly, someone may also argue that the provision of public housing is the responsibility of the government as housing is crucial to public. The government has to provide shelter to public in particular the poor. If public housing is fully privatized, the private sectors may focus on making money and ignore the genuine needs of public. Lastly, it is also a question whether privatization of public housing will resolve the budget deficit in a long run as deficits tend to be cyclical. However, tax revenue, land leases as well as property rents on the other hand is providing a continuous income stream to the government.

To conclude, I support privatization but not the complete hands off or the sale of all agency assets. The partial sale of an agency's assets; the contracts of administration or any contracts of services will be a better solution instead particularly if the public utility is crucial to the well beings of the citizens. The involvement of government is essential as it is taking a role as a balance and checking. It has to balance the interests of the public with those of private contractors.

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