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INTERNATIONAL CONFERENCE ON PRIVATIZATION

Sponsored by the Agency for International Development

February 17-19, 1986

The Shoreham Hotel

Washington, D. C.

Summary Report of Proceedings

Bureau for Private Enterprise
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I. Purpose of the Conference

The principal purpose of the conference was to provide an effective response to a burgeoning demand. Requests from developing countries for information and assistance in reducing the scope of government intervention in their economies while expanding participation of the private sector have increased considerably.

As Secretary of State George P. Shultz said in addressing the participants,

This conference is a symbol of the revolution in economic thinking of recent years. It's been an unusual revolution in that it is a return to principles we once adhered to, but from which we have strayed.

They are principles of individual freedom and private enterprise that have changed the world more in 200 years than all the changes in the preceding 2,000 years....

On every continent...we are seeing efforts to cut back the excessive interference of the state with the private creation of wealth...

In accordance with assisting these efforts, the Secretary called the AID-sponsored conference "a leading example (that) the focus has turned from state versus private sector policies to how best to implement the latter. So it's not an argument of 'whether'; it's a question of 'how'."

The conference brought together the best available answers to the how-to-privatize questions which had been identified. It also afforded an opportunity for formulating improved questions as well as answers. The full importance of the conference, however, extended beyond privatization per se. Better answers to privatization questions can contribute positively to solutions of other problems. For Secretary Shultz, privatization "has a lot to offer us in working on the debt problem....And what is privatization? It is really a movement to equity." Thus, he said, it is clear that -

privatization is not just a device to cut back the size of government. Rather, it is a policy to improve the delivery of services people are now getting....The question is, how can you deliver services most effectively? And people are finding themselves a renewed answer.

Representation at the conference of 46 countries, principally LDCs, by 474 attendees attested to the accuracy of the Secretary's statement. And the importance of the conference lies in the process of finding, rather than having found, a "renewed answer."

Though governments are increasingly amenable to the concept of transferring ownership of more activities to private citizens, there is still much to learn about the means by which these transfers can yield the greatest and most widespread benefits for citizens. Privatization is a complex process, politically, legally, and economically. Success is contingent upon careful consideration of all these factors, and more. This was the challenge addressed by the conference and those assembled for it.

II. Structure of the Conference

The "how-to" of privatization was addressed throughout the two and one-half day conference. But the focus of each day differed. Introductions to the process and consequences of privatization as experienced around the world comprised the plenary session on the first day. In-depth deliberations on specific aspects of that process and experience occupied ten concurrent workshops, covering thirteen topics, on the second day (the sessions were repeated during the day so each conferee could attend three full workshops). The primary conclusions and prescriptions flowing from the first two days were addressed during the plenary morning session of the third and final day.

More specifically, the first day featured seven speeches followed by 20-minute question-and-answer periods. These speeches were keyed to one or more of the thirteen workshops on the second day. The workshops themselves permitted a concentration of shared interests. Each session's deliberative quality was enhanced by a presented paper, commissioned well in advance of the conference. Workshop presentations by the respective authors and the workshop moderators were limited to twenty minutes; the remainder of the two-hour sessions were devoted to open discussion among participants. During the concluding half-day, moderators presented the principal conclusions and prescriptions derived from the discussions of their respective workshops. Valuable contributions from the floor followed, and usefully expanded upon, each of the presentations.

III. Conference Topics

A. Speakers

With few exceptions, the subject matter introduced at the conference was directly related to one or another of the second-day workshops. This relationship was emphasized in the welcoming remarks of Jay F. Morris, Deputy Administrator, Agency for International Development, who introduced the keynote speaker, M. Peter McPherson, Administrator of AID. Mr. McPherson's address incorporated most of the conference topics, thus providing a useful introduction to both the remaining first-day speakers and the second-day workshops.

Mr. McPherson drew from AID projects in Jamaica, Mali, Costa Rica and Bangladesh to illustrate privatization activities which the Agency is currently assisting. The Administrator cited the conference's capacity for establishing the broad knowledge base required for realizing privatization's fullest benefits: "To my mind, we are here to share our experience, letting the successes or problems of one country illuminate the path for another."

Following the keynote speech, Daniel G. Amstutz, Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture, addressed the "Role of Food-for-Peace in Privatization," and the new initiative, "Food for Progress" which has increased resources, through use of local currencies generated by the P.L. 480 program, for private sector activities.

An "Overview of Privatization: The Role in Economic Growth and Techniques" was presented by Elliot Berg, President, Elliot Berg Associates. In delineating the different problems of state-asset transfers in developing versus industrialized countries, Mr. Berg drew on his extensive experience to render "the big picture" for conference attendees.

The next speaker, Babacar N'Diaye, President of the African Development Bank, addressed "A Conducive Environment for the Growth of the Private Sector in LDCs", providing an overview of privatization possibilities in the developing world. He discussed various methods of capital market development, tasks delegated to privatizing governments in assuring the success of their initiatives, and roles open to foreign donor agencies.

The luncheon speaker, M. Kathryn Eickhoff, Associate Director for Economic Policy, Office of Management and Budget (OMB), spoke of current efforts by the Administration to expand privatization in the United States. Quoting President Reagan's budget message, she said:

The task of reducing the deficit must be pursued with an eye toward narrowing the current wide scope of government activities to the provision of those, and only those, necessary and essential services towards which all taxpayers should be contributing--and providing them as efficiently as possible.

Ms. Eickhoff reiterated the Administration's commitment to private sector initiative, saying that privatization is "essential in maintaining the type of economic growth which is required to meet the deficit and budget projections that we have over the next five years."

Donald E. Shay, Vice President, Management Analysis Center, opened the afternoon plenary session with a talk on planning for privatization, drawing on his experience in Grenada in 1984-85.

"Marketing of Divested State-Owned Enterprises: Problems and Possibilities" was the theme of the next speaker, Pedro-Pablo Kuczynski, Co-Chairman, First Boston International. He addressed four areas: the steps of the process; valuation; marketing; and the sale itself.

A panel concluded the first-day session. This was devoted to successful privatization experiences in Great Britain and Turkey. Speakers were John Redwood, N. M. Rothschild and Sons, Ltd., who served as director of Prime Minister Thatcher's Policy Unit, and Mehmet Bilgic, Director of Privatization, Housing Development and Public Participation Administration, Government of Turkey. The progress of both governments' privatization programs were detailed, including the means by which obstacles were overcome. Mr. Redwood stated that the worst that can be expected of privatization is protectionism, a natural enemy of free enterprise. The best result, he said, is "tangible consumer benefits," which help "build a base of political interest in favor of the whole process itself."

B. Workshops

Where the first day speeches established the common theme of desire and rationale for privatizing and its benefits, the workshops focused on specific phases and aspects of implementation. The workshop schedule was highlighted by a luncheon at which Secretary of State Shultz spoke, as described earlier.

Workshop topics were as follows:

1. The Politics of Privatization

Author: Robert W. Poole, Jr., President, The Reason Foundation

Moderator: Henry Nau, Professor of Political Science and International Affairs, The George Washington University

Given the tasks, in any privatization venture, of determining who will provide the divestiture funding and who will deliver the service through what method, Mr. Poole addressed both misconceived obstacles to these determinations and the very real barriers. Among the misconceived barriers to privatization, he identified the notion of 'natural' monopolies ("We should be very suspicious of claims that a given service represents a natural monopoly."). In the classification of real obstacles, he cited misleading cost accounting; legal and regulatory prohibitions; and government employee objections to privatization.

2. Legal and Tax Considerations in Privatization

Author: Peter Thomas, The Hay Group

Moderator: Charles Haar, Harvard Law School

As legal considerations are pervasive in any privatization scheme, Mr. Thomas detailed both general and universal issues as well as legal ones incurred in specific types of privatization. Posing legal objectives, methods of adjudication and arbitration, this paper raised questions regarding the variations of legal considerations incurred in successful and less-successful privatization. Also discussed were legal and tax restraints of successful privatization.

3. Financing Privatization

Author: Rex E. Pingle, Senior Vice President, Lazard Freres & Co.

Moderator: Mickey Levy, Senior Vice President and Chief Economist, Fidelity Bank

Mr. Pingle delineated ways in which privatization can be accomplished without dependence upon national government or even external government agencies. He thus provided a valuable basis for assessing appropriate roles which international financial institutions can adopt in complementing--or promoting, or even funding--a country's indigenous privatization activities.

4. Privatization of Public Services

Author: Gabriel Roth, formerly of the World Bank
Moderator: Robert B. Hawkins, Jr., President,
Sequoia Institute

This workshop addressed the full range of public services that have been successfully privatized by citizens and their governments. In response to Mr. Roth's survey, essential questions were raised and discussed by participants: What is a successful privatization an effect of? What means are necessarily employed in implementing privatization in spite of objections and obstacles? In lieu of impartially adjudicated property and contract law, would these success stories exist? Have some procurement rules established by governments seeking to privatize proved to be more conducive to the quantity and quality of private production?

5. Methods of Preparation for Privatization

Author: Lance Marston, Vice President, The Hay Group
Moderator: Hal Phillips, Inter-American Foundation

Focusing on the actual transfer of a government function to the private sector, Mr. Marston outlined the steps one should take in a privatization initiative. His road map presented procedures for institutional development, constituency education and development, target selection, transfer, and post-transfer monitoring. This laid the path for a widened deliberative parameter in the workshop, where issues of distribution, conflicts of interest, additional and/or modified steps that may be necessary or desirable were discussed.

6. Marketing of Divested SOEs: Capital Market Development and Marketing Devices

Author: Theodore Ohashi, Partner, Granville West Financial Services
Moderator: Herbert Davis, George Washington University

As governments have marketing devices at their disposal which are not available to other sellers (e.g., tax codes; various degrees of regulatory and legal prohibition; incorporations), the possible means for privatization are many. Mr. Ohashi stressed innovation in planning a marketing device, as governments can divest themselves of deficits and "white elephants" even where a sale might seem

unlikely. Discussions sought to identify marketing devices most appropriate in both the presence and absence of well-developed capital markets.

7. The Policy Conditions Needed for Privatization

Author: Charles Taylor, Deloitte, Haskins and Sells

Moderator: Edwin Hullander, A.I.D.

Mr. Taylor outlined ways in which credibility, legal authority and profit need not be preliminary events to privatization, but functions and results of it. Legal and government policy changes through privatization can prompt social changes, including the development of an entrepreneurial and technocratic middle class. Discussions focused on ways in which banking institutions and intermediate financial institutions management contracts can serve as inroads to privatization.

8. Public and Private Sector Responsibilities in Privatization

Author: Madsen Pirie and Peter Young, Adam Smith Institute

Moderator: Lawrence Chickering, Executive Director, Institute for Contemporary Studies

The authors identified general tasks of the private and public sectors in promoting successful privatization initiatives. The private sector is often conceived to be the most creative, energetic and effective force demanding market performance and social accountability. Community groups can thus serve as control entities, vehicles for collective exercise of the rights of individual beneficiaries. The public sector is active in determining the configuration of state, market, and community controls that can support an effective and socially accountable SOE (State-Owned Enterprise) divestiture.

9. Strategies Employed in Successful Privatization Efforts

Author: Steve Hanke, Professor of Applied Economics, Johns Hopkins University

Moderator: L. Gray Cowan, Consultant, A.I.D.

Mr. Hanke presented comparative cost theory and evidence of private versus public goods production and service provision, providing information deemed most likely to effect the changes in government conceptions which must occur in order for privatization strategies to succeed. Evidence was

drawn from diverse areas including administration, natural resource utilization, municipalities, utilities, and health care, supporting the notion that private supply is more efficient than public supply. Separating technocratic from political approaches, he addressed ways in which privatization policies can be best implemented.

10. Deregulation and Privatization of Marketing Boards

Author: Ian Marceau, Senior Economist, Hassall and Associates

Moderator: A. Rufus Waters, Babcock School of Business, Wake Forest University

Mr. Marceau discussed the historic and current roles of marketing boards, and the issues necessarily raised in the transference of these roles to the private sector. Prices paid to consumers and producers and production management were identified as areas for which there are many privatization options.

11. Privatization of the Agriculture and Agri-business Sectors

Author: Ian Marceau, Senior Economist, Hassall and Associates

Moderator: A. Rufus Waters, Babcock School of Business, Wake Forest University

Government intervention through parastatals and most notably through price-setting were shown to be detrimental to agricultural producers and industries. The critical issues of transfer to the private sector of parastatal activities were discussed. Mr. Marceau illustrated the result of the process to be the elimination of monopoly powers in the agricultural and agribusiness sectors.

12. Privatization in the Financial Sector

Author: Lawrence H. White, Department of Economics, New York University

Moderator: Robert Slighton, Vice President, Chase Manhattan Bank

Mr. White presented a concise rationale for privatization and deregulation of financial institutions from which he launched a detailed account of privatization preconditions as related to different types of institutions, and an account of the alternatives in privatizing a national payment system. His section addressing obstacles to financial privatization prompted spirited discussion and case-study elucidation by workshop participants.

13. Developing a Country Privatization Strategy

Author: Jean de la Giroday, Center for Privatization

Moderator: Edwin L. Hullander, A.I.D.

With an accent on process, Mr. de la Giroday summarized the general elements of a government's role in divestment. Planning, legal, political, and other strategic elements were shown to be technically and politically complex, and necessarily risk-assuming.

IV. Accomplishments

The concluding plenary session brought together all moderators to summarize the principal conclusions of their respective workshops.

Speaking for Agency Administrator Peter McPherson, Jay Morris closed the conference with an emphatic commitment:

Privatization increases the quality of goods and services available in the market while keeping them responsive to consumer need and demand. Privatization allows governments to reduce their deficits by ending the costly subsidies they pay to keep inefficient parastatals afloat. [...] Privatization will, over the long term, create more jobs and opportunities for all. [...] Its potential for opening an avenue of unlimited opportunity for economic growth is so great, we simply must pursue it. Privatization [...] will continue to be a major element of our policy dialogue with host country governments.

He outlined a 5-point program for AID in the coming years which includes promotion of capital market-development policies; of privatization goals via the banking community; a heightened decisiveness in multilateral development bank lending practices; and an extension of AID's arm of assistance through the establishment of a Privatization Fund in the Bureau for Private Enterprise. Finally, AID's missions in over 40 countries will themselves be committed to an average of two privatization activities by the end of fiscal year 1987. Speaking as much of the conference as of the near future, Mr. Morris concluded that "it has become clear for many nations that privatization offers a much better future than continued statism. [...] The more people learn about privatization, the more they will recognize its obvious many benefits."

In addition to acting as a catalyst for new AID initiatives, the International Conference on Privatization focused world attention on privatization, provided LDC leaders with a greater understanding of the subject, and motivated them to continue the dialogue in their own countries.