

**PUBLIC SERVICE UNDER CHALLENGE  
IN THE AGE OF PRIVATIZATION**

M. Shamsul Haque  
Department of Political Science  
National University of Singapore

**INTRODUCTION**

During the second and third quarters of this century, the increasing intervention of the state in various socioeconomic activities led to an unprecedented expansion in the scope of public service in almost all countries irrespective of their differences in social formation and ideological predilection. Confidence in the state and a large public sector became pronounced not only in socialist nations and newly independent Third World countries, but also in advanced capitalist economies (Esman 1991; Pinto 1994). The manifestations of such expansive public service in these countries could be found in both the number of public employees and amount of public expenditures.<sup>1</sup>

Even after a significant amount of privatization in the 1980s, it was observed that in 1990, the public sector accounted for 20.6 percent of the total employment in Canada, 19.4 percent in Britain, 15.5 percent in the U.S., 22.6 percent in France, 31.9 percent in Sweden, and 32 percent in Norway (see OECD 1993, 351). In terms of expenditure, the overall public expenditures in 1990 represented 36.1 percent of the GDP (Gross Domestic Product) in the U.S., 46.9 percent in Canada, 42.1 percent in Britain, 49.9 percent in France, 46 percent in Germany, 53.3 percent in Italy, 55.2 percent in Belgium, and so on.<sup>2</sup> Similar scenario of substantial public expenditures could be observed in many Asian, African, and Latin American countries in the early 1990s.<sup>3</sup>

Until recently, the public service used to be widely recognized as a panacea for many social, political, and economic disorders,<sup>4</sup> although the reasons for expanding the public sector varied, especially, depending on the nature of the state and its ideology. While the absolute monopoly of the public sector in socialist countries resulted from their ideological predisposition, its expansion in capitalist countries occurred due to the increasing role of the state in overcoming market crises through fiscal and monetary policies, in providing social welfare demanded by the public, and in addressing social problems such as poverty, unemployment, crime, and homelessness (Subramaniam 1983; Sjoberg et al. 1973; Clarke 1994b). In Third World countries, on the other hand, the scope of the public sector multiplied overwhelmingly during the postcolonial period to complement a weak

private sector, encourage private entrepreneurship, increase national control over foreign ownership, generate employment, redistribute wealth, and implement development programs (see Carey-Jones et al. 1974; Subramaniam 1983; Martin 1993). But all these pro-state rationales have become relatively obsolete in the current age of "privatization".<sup>5</sup>

Recently, in almost every society, the nature, scope, role, and image of public service have been affected considerably by, what Jennings (1991, 113) calls, the privatization movement.<sup>6</sup> As many scholars have observed, in contemporary history, privatization is one of the most revolutionary experiences for nations all over the world (Hanke 1987, 3; Savas 1987, 291), because it has become "a central feature of the economic policies of a variety of nations in the developed and underdeveloped world and in capitalist and socialist states" (Hartley and Parker 1991, 11). By 1992, privatization was already launched in more than 80 countries, and since 1980, more than 2,000 public enterprises has been privatized in developing countries, and 7,000 worldwide (Martin 1993, 95; Galal and Shirley 1994, 3). Such privatization has significant critical implications for the public service due to its advocacy for expanding private sector by diminishing public sector (see Bhattacharya 1990; Hastings 1983; Donahue 1989).

More specifically, privatization has posed significant challenges not only to public service legitimacy, but also to public service ethics and motivation. As Jennings (1991, 113) points out, the privatization movement "profoundly challenges both what government does and how it does it. It has substantial potential to reshape the way we think about and define public service and public administration." However, such implications of the movement have not been subjected to a thorough critical review. The purpose of this article is to explicate the nature of the following challenges posed by the privatization movement: (i) the challenge to public service legitimacy, (ii) the challenge to public service ethics, and (iii) the challenge to public service motivation. In addition, the major claims and assumptions held by privatization advocates are critically examined.

## **THE CURRENT CHALLENGES TO THE PUBLIC SERVICE**

### *Challenge to Public Service Legitimacy*

In the past, there were both proponents and opponents of public service.<sup>7</sup> Social scientists, in particular, have pointed to the multifarious dysfunctions and pathological implications of bureaucracy, including tunnel vision, negligence, delay, secrecy, incompetence, unresponsiveness, dehumanization, excessive power, authoritarian tendencies, and lack of accountability (see Jennings and Denhardt 1987; Gazell and Pugh 1990; Mukhopadhyay 1983; Dwivedi and Jabbara 1988; Haque 1994). But there was always the implication that such objections to public bureaucracy could be addressed by reforming bureaucratic structures, functions, norms, and attitudes. In fact, these critics played an emancipatory role in society by revealing the reality of bureaucratic domination and pathologies, creating pressure for bureaucratic reconstruction, and thereby, enhancing bureaucratic competence, responsiveness, and accountability.

However, the intent of the current assaults on public bureaucracy introduced by the advocates of privatization is different. They not only characterize public bureaucracy by its alleged inefficiency and self-serving motives (Jennings and Denhardt 1987; Nigro and Richardson 1987), they simultaneously portray the virtues of privatization, such as efficiency, equity, and innovation, as more desirable options (Savas 1987; Peters 1991). Unlike the traditional critics of public bureaucracy, the recommendation of these new advocates is not to introduce structural, functional, or attitudinal reforms in the public service, but to replace it by market forces through privatization policy.<sup>8</sup> Such a pro-market policy stance that is critical to the very existence of the public service has been espoused not only by the business interests, but also by other proponents of free market and free enterprise, who in the 1980s, "came to dominate key positions in some Western governments, international development agencies, and some Third World governments" (Smith 1991, 30). For instance, the recent political leaders in Britain, Canada, and the U.S. have been quite hostile to state bureaucracy (Campbell and Peters 1988, 96), and they have denigrated public employees and introduced reforms emulating the techniques of business sector (Hetzner 1989; Gormley 1989; Dillman 1994).

The worldwide propagation of privatization by such dominant national and international forces, including the neoconservative politicians, business elites, think-tanks, and international agencies such as the World Bank and the International Monetary Fund (IMF),<sup>9</sup> has reshaped public attitudes towards the public service, weakened its public confidence or trust, and thus, diminished its public legitimacy.<sup>10</sup> Public confidence, one of the most important indicators of public service achievements (Bledsoe 1983), has declined in many countries, including the advanced Western democracies. For instance, many studies confirm that in the U.S., there has been a significant decline in public confidence in the major public institutions (Gordon 1992), including the public service. More specifically, between 1973 and 1986, the public confidence declined from 29 to 16 percent in the executive branch, from 42 to 21 percent in the Congress, and from 28 to 20 percent in the state and local governments (Gilbert 1988, 17-23). The number of people believing in the excessive resource waste in the public sector, increased from 45 percent in 1958 to 76 percent in 1985 (Levine, Peters, and Thompson 1990, 405). In addition, according to a New York Times/CBS News Poll (1994), over 66 percent of Americans feel they are helpless and unable to influence government policies (Seelye 1994, 1-10).

Although it is possible to blame the past failure of public service itself for this decline in public confidence,<sup>11</sup> one should not discount the fact that this confidence crisis is also inseparable from the recent "bureaucrat bashing" by politicians and media attacking bureaucracy for its alleged inefficiency (Wilson 1994; Fine and Mahoney 1994; Volcker Commission 1990). In fact, "politicians of every stripe have criticized the bureaucracy--Jimmy Carter promised in 1976 to 'clean up the horrible bureaucratic mess in Washington'; in 1980 Ronald Reagan promised to 'get the federal government off your [Americans'] backs'" (Gordon 1992, 3). It has been also mentioned in the report of President's Commission on Privatization (1988, 1) that there is a growing concern that "the federal government has become too large, too expensive, and too intrusive in our [American] lives." Since the public respect for public service depends, to a great extent, on its support

and cooperation from political decision makers (Esman 1991), their recent attacks on the public service has significantly tarnished the credibility and prestige of public service (Steuer 1987; Clarke 1994a).

The Volcker Commission (1990, xxii) discovered that this current "bureaucrat bashing" by presidential candidates had been a powerful force to create a negative public perception of public service. It specifically mentions that "when the President and members of Congress denigrate the federal workforce, they reinforce the public's inherent distrust of it" (Volcker Commission 1990, 66). The Commission implies that the diminishing public trust in the public service is evident in the recent decline in the number of university graduates joining the public service, their ranking of the public service as a third or fourth choice (out of six), and a reduction in enrollments in public service education programs (Ibid.). From various studies, some scholars have discovered a similar erosion of public confidence in government and the public service in other Western nations and Third World countries (for details, see Peters 1984, 56; Mahler and Katz 1988, 48; Dwivedi 1983, 511).

In short, under the current pro-market atmosphere, the attacks on the public service and the endorsement of private enterprises by the leading advocates of privatization, especially the conservative political leaders and international agencies,<sup>12</sup> have serious implications for the further decline of public confidence in the public service, and thus, for its legitimacy.<sup>13</sup> In this regard, Yahaya (1994, 226) mentions that "privatization and commercialization have inevitably posed a major challenge to public administration. . . public administration must either respond to these new challenges with creativity and innovation or will simply become irrelevant."

### ***Challenge to Public Service Ethics***

It is commonly recognized that the public service should have its own professional ethics based on democratic values (McSwain and White 1987; Kass and Zinke 1989), and that these are likely to be different from the market values of private enterprises. In advanced Western nations such as France, Canada, Britain, and the U.S., the ethical standards of public service identified by different scholars include accountability, representativeness, responsibility, neutrality, responsiveness, integrity, equity, impartiality, anonymity, benevolence, and justice (Kernaghan 1986; Dobel 1990; Harris 1990; Dwivedi 1987; Denhardt 1991; Dillman 1994). Public service ethics should also be based on the "regime values" prescribed in a nation's constitution (Rohr 1989; Hart 1983; Richardson and Nigro 1991). Usually, these regime values are different from the market standards, particularly when the regimes are non-Western (Harris 1990, 8).

However, the context of such established ethical benchmarks has changed today. To overcome its legitimacy problem and maintain its credibility in the current pro-privatization climate, public services have increasingly replaced their traditional values by the pro-market values of privatization such as competitiveness, efficiency, productivity, and profitability (see Esman 1990; Ventriss 1989; Henig, Hamnett, and Feigenbaum 1988). According to Whitfield (1992, 11), "The

principles of public service are rapidly being eroded. Commercial values, business practice and market forces are fast becoming the dominant operational criteria."

In the 1980s, the most significant decade for the emergence of the privatization ethos, the government emphasis on efficiency resulted in the application of "businesslike" methods in public agencies, treatment of public programmes like business activities, and recommendations for developing business skills among public servants (Argyriades 1990, 576; Ventriss 1987, 27; Hetzner 1989). Some of these changes in the public service specifically include "the introduction of internal markets, compulsory competitive tendering, cost-effectiveness criteria, productivity and outcome targets, performance incentives and rewards, and the decentralization of wage setting and grading systems" (ILO 1995, 13). For instance, in the British civil service, the government has introduced the so-called "New Public Management" and "Financial Management Initiative", which emphasize the criteria of economy and efficiency, the outlook of business-sector "managerialism", the techniques of cost-benefit analysis, and the spirit of "value-for-money" (Dunsire 1991; Massey 1993; Peters 1991). In the U.S., the Reagan administration attempted to inject private sector norms and techniques into public sector through the President's Private Sector Survey on Cost Control (Massey 1993, 124). More recently, Vice-President Gore's National Performance Review has introduced the idea of "entrepreneurial government" responsive to "customers" (citizens) (see ILO 1995, 18). Governments throughout the Western world are making increasing use of microeconomic analysis in government policies based on market principles which tend to undermine and replace the public sector norms (see Mayer 1985; Massey 1993). Even in Third World countries, the public service is being changed towards similar business norms of managerialism, efficiency, competition, and profit, especially under the influence of the World Bank (see World Bank 1994a; Dwivedi 1994).

These newly emerging business-oriented ethical standards in the public service are quite incompatible with many public goals and objectives (Ventriss 1989; DeMarco 1983). Although public servants themselves are in consensus that there is a need for guidance by public service ethics (Perry 1989; Bowman 1990), the tendency of current political leaders and executives is to accuse public service for elitism and unresponsiveness (Campbell and Halligan 1992), learn from private-sector management and adopt businesslike methods (Peters 1991; Argyriades 1991), and emphasize market standards (e.g. efficiency and competition) that weaken other essential values of the public service such as equity, accountability, openness, responsiveness, and representativeness (Pempel 1984; Baldwin and Farley 1990; Morgan and England 1988; Gupta 1994).

The current ethical challenge to the public service emanates basically from an attempt of various government agencies to restore their weakened legitimacy or revive their lost public confidence by adopting the values of private enterprises,<sup>14</sup> although such values are relatively incompatible with mainstream public service norms.<sup>15</sup> However, this incorporation of market values in the public service may lead to a further decline in its legitimacy, because there is no reason to believe that the public will have more confidence in a public service driven by market values than one based on traditional, largely democratic, values.

### *Challenge to Public Service Motivation*

The contemporary ethos of privatization, charged with pro-market and anti-public sector sentiments (ILO 1995, 60), has not only created problems for public service legitimacy and ethics, directly or indirectly, it has also posed a significant challenge to the motivation of public servants. On the one hand, the legitimacy deficiency of public service has negatively affected the public employees' perception of self-worth and personal significance (Perry and Porter 1983, 177). On the other hand, the recent deviation from public service ethics caused by the infusion of market values has disturbed the unique sources of employee satisfaction that are immanent in the public service itself.<sup>16</sup> In countries such as the U.S. and Australia, it has been difficult for many senior civil servants to reconcile with the newly emerging values, and compromise the traditional public service values that motivated them in the past to remain in the public service (see Campbell and Halligan 1992, 183-6).

According to Sharma (1994, 208), in African countries, the adjustment programs and privatization have not only curtailed public programs and reduced civil service positions, they have also diminished public service morale and motivation. Such decline in public service motivation has been observed by Reis and Cheibub (1994, 151) in the case of Brazil. Similarly, in Britain, "[t]he generalized British loss of confidence in government has inevitably affected morale among the higher civil servants" (Rose 1984, 166). In the U.S., it has been found by the Volcker Commission (1990, 12, 65) that the recent "bureaucrat bashing" by politicians has eroded the sense of pride and meaning in the public service and affected the morale of public servants. According to the 1989 General Accounting Office (GAO) report, around 90 percent of the Senior Executive Service (SES) members are dissatisfied with negative attitudes held by the current political leaders, media, and the public toward the federal service (see Ingraham and Rosenbloom 1990, 215). Thus, according to some studies, only 13 percent of these senior civil servants would like to recommend young people to start their careers in the public service, 72 percent of them would not recommend government careers to their children, and if asked, 65 percent of them would advise someone to choose the private sector as career (Volcker Commission 1990; Farazmand 1989; Ingraham and Rosenbloom 1990).

The dissatisfaction of public employees is also evident in their increasing rate of turnover and growing skeptical attitudes towards the public service<sup>17</sup> caused predominantly by "the pervasive sense that the public service is neither respected nor valued" (Volcker Commission 1990, 140). For example, in the context of pro-privatization and anti-public service climate of the 1980s in the U.S., about 45 percent of most well-trained SES members left civil service, 22 percent were planning to leave, and the annual turnover rate reached 20 percent (Farazmand 1989, 189; Bellavita 1991). On the other hand, the federal government was unable to fill 35,000 high-skill positions in 1988: some federal agencies had real difficulty in hiring qualified employees, and in fact, many job offers were turned down (Bellavita 1991, 156). The Volcker Commission (1990) suggested that the U.S.

government was facing increasing difficulty to attract and retain quality human resource in the public service.

Recently, the academic sphere has also played important role in creating such a negative public image of the public service (Haque 1992). For instance, many economists and political scientists, particularly the proponents of public choice theories such as A. Downs, G. Tullock, W. A. Niskanen, and Vincent Ostrom, are skeptical about the inherent efficiency and rationality of public bureaucracy. For most of them, bureaucrats "prefer self-interest to public interest" and tend to maximize "personal utility" (Bhattacharya 1990; Berg 1984; Kettl 1990; Halachmi and Holzer 1993; Campbell and Halligan 1992). This public choice perspective interprets public service as just one of the many economic choices available to citizens and encourages government agencies to function like business enterprises (Campbell and Halligan 1992; Garvet 1991): this perspective tends to disregard the unique responsibilities of public service, such as the provision of education and health care for the poor, guarantee of minimum social equality and representation, and maintenance of internal and external security, that are less likely to be carried out by the private sector. However, such utilitarian, economic interpretations of the public service by the contemporary academics have critical implications for the level of motivation among public servants,<sup>18</sup> because such interpretations tend to discount these unique contributions of public service to the realization of public interests and national goals.

The current challenge to public service motivation is created not only by this unfavorable public attitude, declining public confidence, and academic critique, it is also accelerated by the problems of public service ethics discussed above. For public employees, in addition to the extrinsic sources of satisfaction such as salary, status, and working condition, there are unique intrinsic factors in the public service, particularly its ethical standards, that become important means for satisfying ego and self-actualization needs. In this regard, Perry and Wise (1990, 368-71) identify three specific categories of intrinsic motives in the public service, including rational motives (feelings of self-importance by participating in the process of public policy), norm-based motives (a desire to serve public interest and ensure social equity), and affective motives (feelings of patriotism and benevolence). Similarly, Handley (1989-90) suggests that one of the greatest rewards for a public servant is feeling proud of doing something for the public good. In the case of Canadian federal bureaucracy, it has been found by Jabes and Zussman (1988, 204) from a survey that in addition to monetary incentives, public employees are also motivated by a sense of goodwill and commitment to the "public interests". But in the prevailing atmosphere of privatization in different countries, such unique sources of motivation and commitment have been cut off by the rise of market values in the public service (Perry and Wise 1990; Perry and Porter 1983). In regard to this problem of in Australia, Campbell and Halligan (1992, 230-31) mention that one major traditional source of satisfaction for senior civil servants was their involvement in national policy and public service, while recently, they were told to respect private sector values but without the rewards offered to business executives.

It has been emphasized in the above discussion that the current problems of public service legitimacy and ethics have posed a new challenge to the motivation

of public employees. However, this motivational problem, in turn, tends to reinforce the legitimacy crisis and ethical challenge.<sup>19</sup> For example, as a result of declining job satisfaction, there is a growing "brain-drain" from the public service to the private sector (Ingraham and Rosenbloom 1990; Volcker Commission 1990). This loss of skilled and committed public servants will decrease the performance of the public service, and thus, diminish its public confidence further and, of course, worsen the problem of its legitimacy. On the other hand, there is a gradual erosion of intrinsic satisfaction among public employees that they used to get from traditional public service norms: such as satisfaction from serving public interests, providing social services, and participating in national policies (discussed above). This decline in intrinsic satisfaction is likely to encourage public employees to abandon mainstream public service ethics, convert themselves into business-like managers (White and McSwain 1990, 33), emulate pro-market ethical standards, and thus, exacerbate ethical contradictions.

In summary, the three major challenges to the public service created mainly by the current ethos of privatization are mutually reinforcing and constitute a vicious cycle.<sup>20</sup> How can these challenges be addressed? One should begin, perhaps, by examining the basic claims and assumptions of privatization proponents.

### **REEXAMINING THE CLAIMS AND ASSUMPTIONS OF PRIVATIZATION**

In arguing for the privatization of the public sector, the proponents of privatization claim that compared with the public sector, private enterprises are usually more efficient and competitive, more capable of ensuring fairness and welfare, and more suitable for achieving a proper allocation or distribution of resources (see Pitelis and Clarke 1993; Henig, Hamnett, and Feigenbaum 1988). In addition, it is claimed, especially in Third World countries, that privatization reduces the public sector expenditures, lessens budget deficit, minimizes public borrowing from external agencies, and generates government funds for new projects (Okumura 1994, 356). All these claims have been used to attack public sector organizations and justify their privatization. Underlying these claims, however, there are two basic assumptions: first, that the functions and outcomes of public sector are comparable to those of private enterprises; and, second, that there is a clear functional separation between the public sector and private enterprises operating in the free market, and thus, the privatization of the public service will make a significant qualitative difference to its performance. In this section, these claims and assumptions are critically examined.

However, it is necessary to specify that the purpose of the following analysis is not to evaluate whether privatization has caused more inefficiency, unfairness, poverty, inequality, and so on. The objective is rather to examine whether there is adequate evidence to substantiate the claims and assumptions of the privatization advocates that privatization leads to more efficiency, higher competition, greater fairness, more welfare, better allocation, and lesser public sector. Thus, the following analysis will present some empirical findings and



figures in order to assess whether the claims and assumptions of privatization are compatible with the actual economic conditions in different countries, not whether privatization itself has caused such economic outcomes. This analytical distinction is emphasized throughout the remaining discussion.

## **The Claims of Privatization and Their Critique**

### *Efficiency and Competition Claims*

One of the strongest claims made by the proponents of privatization is that because of the competitive nature of private enterprises, they are inherently more efficient than the public sector (Clements 1994; McGowan 1994; Chapman 1990; Dobek 1993; Pai 1994). But a variety of comparative studies have found no evidence that the performance of private enterprises is always better and a change in ownership (from the public to the private) always improves the level of performance (Dunsire 1991; Aharoni 1986; Aage 1994; Pitelis and Clarke 1993). Instead, case studies and comparative research show that for some activities, private enterprises perform better than the public sector, while for others, the public sector has better or at least equivalent performance record (Donahue 1989, 58-78; Boneo 1986, 45). In the case of the U.S., it has been found that "government agencies may be able to execute some of their policies less expensively than private contractors are doing" (Henry 1995, 330). In regard to Third World countries, Cook and Kirkpatrick (1988) could find no conclusive evidence of an inverse relationship between the performance and the size of public sector.

However, one may like to examine the efficiency claim of privatization policy by considering the recent trends of economic performance in different countries that have pursued privatization, in terms of certain indicators such as economic growth rate, per capita income, and inflation rate. In terms of the annual growth rate, most industrial nations and Third World countries experienced much better performance in the period (1960-80) of state intervention and expansive public sector than it was in the period (1980-1995) of pro-market and anti-state policy of privatization. For instance, between 1965-80 and 1980-91, the annual rate of growth, expressed in terms of GNP per capita, declined from 1.7 to -1.5 percent in Argentina, from 6.3 to 0.5 percent in Brazil, from 3.6 to -0.5 percent in Mexico, from 3.1 to 0.3 percent in Kenya, from 4.2 to -2.3 percent in Nigeria, from 3.2 to -1.2 percent in the Philippines, from 5.2 to 3.9 percent in Indonesia, and many others experienced the similar decline (UNDP 1994, 182-183). Among industrial nations, during the same period, the GNP growth rate declined from 3.3 to 2.0 percent in Canada, from 3.7 to 1.8 percent in France, from 2.7 to 1.6 percent in the Netherlands, from 4.1 to 2.8 percent in Spain, from 2.2 to 1.6 percent in Australia, from 5.1 to 3.6 percent in Japan, and so on (Ibid., p.206).

A more severe economic decline has been experienced by the newly emerging market economies in Eastern European countries and the former Soviet republics. Between 1989 and 1992, the annual GDP growth rate dropped from 1.4 to -7.1 percent in Czechoslovakia (former), from 3.8 to -4.0 percent in Hungary, and from 0.4 to -2.0 percent in Poland (Clarke 1994a, 11-12). Similarly, in the

privatized economy of Russian Federation, between 1989 and 1991, the GNP growth rate declined from 3.0 to -17.0 percent, and investment growth rate from -1.6 to -4.0 percent (Age 1994, 169). There has been also a significant decrease in per capita income in most of these countries,<sup>21</sup> not to mention the condition of hyper-inflation that has crippled their economies.<sup>22</sup> According to Clarke (1994a, 12), these declining economic conditions in these emerging market economies are not just temporary or transitional phenomena, they may experience such conditions over the next ten to twenty years.

The purpose of presenting the above economic figures is not to suggest that privatization has caused such decline in the rate of economic growth, deterioration of poverty, and increase in inflation rate in different countries, which might be attributed to other socioeconomic factors. The purpose rather is to make a point based on the above examples that there no concrete evidence which demonstrate that privatization leads to more economic efficiency, such as higher growth rate and per capita income, as claimed by its proponents.

The criterion of efficiency as a rationale for privatization also becomes questionable when it is found that in many cases (such as British Gas and British Telecom), the public enterprises that were privatized had been, by and large, successful and profitable concerns before they were sold off (Rentoul 1987, 25; Dalal 1991, 84). There are also concrete examples of efficient public sector performance in the Newly Industrialized Countries such as Taiwan and South Korea, whose state-centered policies have been highly successful in terms of economic achievements (Martin 1993, 21; Rowthorn and Chang 1993, 64). From these empirical findings discussed above, recently, many scholars are convinced that in general, there have been very minimal economic gains from privatization, and they are now examining the role of privatization rather as a political strategy used in various developed nations and Third World countries (Henig, Hamnett, and Feigenbaum 1988; Rentoul 1987; Okumura 1994).

Related to the question of efficiency, the proponents of privatization, such as Savas (1987), Pirie (1988), and Galal and Shirley (1994), also claim that private enterprises function in an environment of open competition while the public sector is burdened by huge monopolistic bureaucracies. In opposition to such claim, there exist many private enterprises that are oligopolistic and monopolistic in nature and have overwhelming command over the world market. In this regard, Aharoni (1986, 69) mentions that the modern Western economies are dominated by giant (often multinational) firms, and "some of the largest hierarchical organizations [e.g., General Motors, Ford Motor Company, IBM, Mobil, and Exxon] in the U.S. are not governmental but private business enterprises." Although in global terms there is apparently some degree of competition among the giant corporations, such competition remains relatively ineffective: because only 300 large multinational corporations (MNCs) account for more than 75% of the world's GNP; because many of these MNCs have each a gross corporate product larger than many countries' GNP; and because "if companies were countries, forty of the top one hundred world economic powers would be corporations" (Rourke 1986, 255-256).

In fact, privatization itself has largely failed to make any significant change in the monopolistic nature of the privatized public enterprises. For instance, instead of splitting them up, some Western governments have sold the state enterprises to the private sector as intact monopolies (Rentoul 1987; Massey 1993;

Hartley and Parker 1991; Martin 1993). Such transfer of monopolistic economic power from the public to private sector not only benefits the purchaser (McGowan 1994), it also creates the problem of public accountability, because a monopolistic enterprise, once privatized, is difficult to control by public or their representatives.<sup>23</sup> From the above brief analysis, it can be concluded that there is sufficient reason to suspect the claims of efficiency and competition made by the privatization advocates and there is a need for more comprehensive studies and critical research to evaluate such claims.

### *Fairness and Welfare Claims*

It has been argued that by replacing the centralized, self-serving, and often corrupt public bureaucracies by competitive private enterprises, privatization policy can enhance fairness in society. It is also suggested that privatization is likely to enhance the overall social welfare, because of the potential of privatized enterprises to provide better services at lower prices, respond to the needs of the consumers, and enhance their satisfaction (Pai 1994, 159-160). According to Rentoul (1987, 4), one of the governmental rationales for privatization has been the following: *"whoever benefits or loses from privatisation in the short term, everyone is better off in the long run . . . [original italic]."*

First, in regard to the fairness claim, although it is undeniable that public bureaucracies can be self-aggrandizing and corrupt, it cannot be concluded that private enterprises are fairer or less corrupt. Rose-Ackerman (1989, 663) provides adequate examples to show that like public sector organizations, business firms are engaged in various corrupt practices in terms of their internal managerial activities, dealings with the clients, and transactions with government agencies. For instance, in the 1980s, while almost two-thirds of the U.S. defense expenditures went for purchasing goods and services from private contractors, there was an eruption of defense procurement scandals and many of these contractors came under investigation for various charges (Donahue 1989, 101). However, corruption committed by private enterprises, especially multinational corporations and defense contractors, is not confined to domestic operations, it encompasses many foreign countries. It is mentioned by LeVine (1989) that various forms of international corruption (e.g. bribes, payoffs, and kickbacks) have been practiced by giant defense contractors such as Lockheed, Boeing, McDonnell-Douglas, Northrop, and Rockwell International; by oil companies such as Ashland, Exxon, Gulf, Phillips, and Occidental; and by other transnational firms dealing in other commodities. According to Henry (1995, 334), between 1983 and 1990, twenty-five of the hundred largest defense contractors were found guilty of procurement fraud: they were involved in bribing public officials to obtain secret information, falsifying weapons test results, overcharging the government, and so on.

In fact, many public organizations are engaged in controlling the crimes and violations committed by private enterprises and regulating the negative externalities created by them in the process of production, exchange and distribution. Moreover, in many cases of major bureaucratic corruption, the exchange takes place between top public officials and private enterprises: such

cases "involve payments to government officials in return for favorable regulatory treatment, tax relief, or direct transfer payments or loans" (Rose-Ackerman 1989, 666). In the U.S., many construction companies adopted corrupt means to expedite permits from government officials, building contractors took advantage of their access to city decision-makers, defense contractors used military officers to acquire inside information and obtain defense contracts, and the multinational corporations made secret deals with the corrupt public officials in Third World countries (for details, see Rose-Ackerman 1989; LeVine 1989; Henry 1995). Thus, in opposition to the claim that the expansion of private enterprises through privatization would reduce bureaucratic corruption and enhance fairness, Rose-Ackerman (1989, 675) suggests that deregulation and privatization "may simply mean the substitution of a corrupt private official for a corrupt public one."

Second, regarding the welfare claim, there is no solid evidence that private enterprises can play a better role than the public sector. As Hamilton (1989, 1524) points out, even if privatization leads to higher economic growth, "growth does not guarantee that living conditions for the poor majority will be improved. The trickle-down idea is often more a convenient article of faith than an economic reality." In fact, the forces of privatization, due to their overemphasis on efficiency, competition, and market forces, "overlook other interests and issues that are vital to the public's social and economic well-being" (Morgan and England 1988, 981-2). The welfare for the common masses has not improved in many Third World countries that have introduced privatization policies, which is reflected in the trends of poverty and living standards.<sup>24</sup>

During the period of privatization between 1980 and 1992, the number of people in poverty in Latin America increased from 136 million to 266 million (Veltmeyer 1993), and in Africa, the number of people in poverty has already reached 200 million (Bello, Cunningham, and Rau 1994). In terms of living standards, the incidence of undernutrition increased from 22 percent in 1979-81 to 26 percent in 1983-85 in sub-Saharan Africa, and health services have become less affordable to the poor in countries such as Zaire, Swaziland, Lesotho, and Uganda (Bello, Cunningham, and Rau 1994). More recently, in many of the emerging market economies in Eastern Europe and the former Soviet republics, the standards of living have deteriorated significantly.<sup>25</sup> Although these examples do not prove that privatization has caused this decline in living standards in these Third World and post-socialist countries, which might be caused by other unknown factors, they at least represent the fact that privatization does not necessarily enhance the welfare of common people.<sup>26</sup>

#### *Allocation or Distribution Claims*

The advocates of privatization often claim that it is mainly private enterprises rather than the state which, through the free market, can ensure more efficient allocation of goods and services (Hamilton 1989; Rentoul 1987). It is also argued that privatization expands the base of ownership, and leads to the so called "popular capitalism" or "property-owning democracy" by expanding the number of shareholders and property owners (see Okumura 1994; Gupta 1994; Dobek 1993). But as Hastings and Levie (1983, 14) point out, "'Wider share of ownership' is a

misleading phrase because it says nothing about *control* of the companies concerned." In Britain, although the number of individual shareholders increased from 2 million in 1983 to 9 million in 1988, the percentage of shares owned by individuals (out of the total number of shares in Britain) declined from 33 percent in 1979 to 21.3 percent in 1989 as a result of privatization (Okumura 1994, 78; Chapman 1990, 8). In Japan, according to Hiroshi Okumura, privatization has strengthened corporate capitalism rather than people's capitalism, because "in 1990, 66.8% of the issued shares of all listing companies in Japan were owned by corporations. In contrast, the percentage of shares owned by individuals has remarkably declined and was 23.1% in 1990" (Okumura 1994, 84).

It has been pointed out that in the name of people's capitalism, privatization has led to the transfer of billions of dollars to the private sector in the U.S. (Clements 1994, 101), further expansion of corporate capitalism in Japan (Okumura 1994, 84), advancement of interests of the former *nomenclatura* and black marketeers in Eastern Europe, and legitimation of the wealth of ruling cliques and their cronies in many Third World countries (Martin 1993, 9). Thus, for Okumura (1994, 83), as a philosophy of privatization, popular capitalism or people's capitalism has been "only an illusion."

Since private enterprises failed to address the condition of poverty and inequality, the so-called "big government" emerged in many countries to rectify the situation (see Smith 1991; Castle 1988). Although in most countries, government itself has failed to redistribute wealth among people, it is also unlikely that a reduction in the size of government through privatization would ensure such redistribution, because privatization implies a further transfer of public assets (e.g. airline, telephone company, oil industry, petro-chemicals, natural gas, subways and highways, shipbuilding, arms production, railways) to private enterprises (see Thayer 1991; Carchedi 1994; Pai 1994). However, in recent years, the amount of privatization has been extensive. Even the aforementioned World Bank figure, which shows that 7,000 public enterprises have privatized worldwide, seems to represent a gross understatement of the enormity of privatization if one considers the figures presented by other sources, especially with regard to privatization in the former and remaining socialist countries.<sup>27</sup> Among Third World countries, Mexico alone reduced its number of state enterprises from 1,155 to 285 during 1982-90 (Bello, Cunningham, and Rau 1994). Privatization has been also pursued at the level of local government.<sup>28</sup> This huge amount of privatization is supposed to enhance further concentration rather than redistribution of wealth since it is mainly the affluent classes who are able to purchase these privatized state enterprises.

In Britain, during the prime period of privatization between 1979 and 1989, while annual disposable income for the richest 20 percent of households increased by 39.7 percent, it declined by 4.6 percent for the poorest 20 percent of households (Rentoul 1987; Whitfield 1992). In the U.S., during the privatization period 1980-88, federal funding for subsidizing housing for the poor decreased by 86 percent, and assistance to families with dependent children was reduced by 26 percent (Petras 1990, 158). Even if these trends of worsening economic conditions of low-income households or families are unrelated to privatization, and caused by other factors, one may still argue that the coincidence of the period of privatization with the period of worsening inequality (both in the 1980s) does represent the fact that privatization has not ensured a fairer or more equitable distribution as claimed

by the privatization advocates. In other words, even if privatization itself has not caused a more unequal distribution, there is no evidence that it has ensured a more equal distribution in the above cases.

*"Streamlining of the Public Sector" Claims*

In many countries, privatization has been introduced on the ground that it streamlines the public sector by reducing public expenditures, minimizing public sector borrowing, and generating additional resources (Pitelis and Clarke 1993; Gupta 1994; Musa 1994; Asmerom 1994). For the advocates of privatization, "much of the current economic malaise resulted from profligate public spending. Reducing public expenditures, cutting programs and contracting out were regarded as solutions" (Clements 1994, 97). But in many post-privatization instances, instead of a reduction in the public sector, its scope has expanded further in terms of both the number of public employees<sup>29</sup> and the amount of public expenditures. For example, even after a considerable amount of privatization, between 1980 and 1992, the central government expenditure as a percentage of GNP increased from 21.7 to 24.3 percent in the U.S., from 38.2 to 39.5 percent in Britain, from 39.3 to 45.4 percent in France, from 27.0 to 43.2 percent in Spain, from 23.1 to 27.4 percent in Australia, and from 39.2 to 46.4 percent in Norway (World Bank 1994a, 181). Similar evidence of increasing public expenditures can be observed in many Third World countries that have adopted privatization policies.<sup>30</sup> Privatization has also failed to reduce the public sector borrowing in most Third World countries and the former socialist nations.<sup>31</sup>

Traditionally, there were various reasons behind the past expansion of public sector, including the government measures to overcome recessions, generate employment, provide social welfare, reduce foreign economic control, accelerate socioeconomic development, redistribute income, create infrastructure, and so on (see Ramanadham 1984; Cowan 1990; Briones 1985; Martin 1993; Bienen and Waterbury 1989). But under privatization policy, since many state enterprises have been transferred to the private sector to attain these objectives of employment, welfare, growth, and redistribution by private enterprises, there is no reason why the public sector should remain expansive as far as these socioeconomic objectives are concerned. However, the reason why privatization has largely failed to reduce the size of public sector might be discovered elsewhere. First, the process of privatization itself creates the need for a different set of governmental activities--such as regulation (currency, prices, banking, licensing), administration (law, property rights), enforcement (police, surveillance), distribution (transfers, gifts), extraction (taxation, information gathering), and distribution (transfers, insurance)--that requires a large public sector (Chaudhry 1994). For instance, currently there are some 3 million "indirect" federal employees in the U.S. working for government (almost equal to the number of regular civil servants) to deal with a huge number of government contracts (17 million a year) offered to private enterprises (Henry 1995, 322). Related to these contracts, there are some 4,000 separate legislative provisions, 887 sets of regulations, and 485 separate federal procurement offices, which indeed, require a huge bureaucracy for their operationalization.<sup>32</sup> Thus, even when public sector activities are transferred to the

private sector, a considerable amount of state bureaucracy is created in the process.<sup>33</sup>

Second, within the context of privatization, there has been a structural change (rather than reduction) in the composition of government budget and resource allocation in favor of the private capital. In the U.S., for instance, there was considerable restructuring in the public sector in the 1980s: as a percentage of the total federal expenditures, between 1980 and 1988, while defense expenditure increased from 23.4 to 27.3 percent, education expenditure declined from 5.3 to 3.0 percent, and housing expenditure decreased from 1.7 to 1.3 percent (see Levine, Peters, and Thompson 1990, 24). Between 1980 and 1990, there was a reduction in federal spending on environment by 39 percent, and on welfare and unemployment by 21 percent (Clements 1994, 93). Although the overall public expenditure of the U.S. government did not diminish, in the name of privatization, it diverted billions of dollars from the public programs on education, housing, health, welfare, and environment to the sectors that benefit the private capital such as defense since the major contractors of the defense sector are private firms. In 1988 alone, the U.S. federal government spent more than \$200 billion on contracting out, mostly related to the defense sector (Massey 1993, 118). Reagan sought "to increase defense spending and cut spending on virtually all domestic policy areas . . ." (Piffner 1988, quoted in Massey 1993, 119). In brief, based on the above empirical evidence, one may conclude that the claims of the privatization advocates to streamline the public sector by reducing public expenditure, public borrowing, and budget deficit, are not sustainable in many cases.

## **The Assumptions of Privatization and Their Critique**

### *Assumption of Public-Private Comparability*

Underlying the argument for privatization based on the efficiency claim is the assumption that the activities and outputs of public sector are comparable to those of private enterprises. But there is considerable problem with this assumption: for Paul Starr (1987) "pervasive differences in services performed by public and private organizations often render simple comparisons misleading" (quoted in Clements 1994, 95). First, for some of the main government functions, such as national defense, internal security, and environmental protection, there is no private sector counterparts, and thus, the comparison between the public and private sector in terms of their overall performance becomes problematic. Moreover, the performance of these public sector activities is difficult to assess in terms of quantitative economic measures<sup>34</sup> used by private enterprises.

Second, there are complex and intangible input-output linkages between various sectors of the state. For a private enterprise, it is easy to discern input-output ratios and measure the degree of efficiency, whereas in the public domain, the output of each sector usually becomes input for others. Thus, even if a government agency may not be efficient in immediate input-output terms, its goods and services may have significant contributions not only to other government organizations but also to private enterprises.<sup>35</sup> In this regard, comparison between

public and private sector performance becomes unfair. Third, in the private sector, the degree of goal achievement is relatively easy to evaluate because the goals are often specified in pure quantitative and economic terms, whereas in the public sector, such assessment becomes difficult, because the objectives are not only broad and qualitative, they are often attached to various public concerns such as representativeness, equality, openness, participation, and accountability (see Wiltshire 1975, 186-9; Hatry 1982, 428-31). As Clarke (1994b, 421) points out, "The nature of relationship between state and citizen cannot then be based on property rights and exchange, or at least not wholly so." This factor also makes the comparison less acceptable.

Lastly, in most of the market economies, the productive, efficient, and profitable sectors are dominated by private firms, whereas the public sector is left with activities which are socially unavoidable but economically non-profit-making and unattractive, such as health care, food provision, housing, and education for the poor.<sup>36</sup> As Paul Starr (1987) mentions, "Public and private schools, hospitals, and social services rarely have the same kinds of students, patients and clients . . ." (quoted in Clements 1994, 95). Due to this monopolization of profitable enterprises by the private sector and the imposition of economically less viable functions on the public sector, the comparison between the two becomes relatively unjust.

#### *Assumption of State-Market Dichotomy*

The rationale for the privatization of the public sector makes sense only on the assumption that there is a clearly discernible state-market dichotomy and that the role of the state is hardly complementary to the functions of private enterprises (see Hamilton 1989, 1524). Otherwise, if the public sector is already serving the needs of the private sector, the justification for privatization becomes weak. However, in reality, such a strict state-market dichotomy and incompatibility rarely exist. This is particularly true in capitalist market economies where, historically, the public sector expanded mostly to rescue market enterprises from various economic and sociopolitical crises such as the Great Depression of the 1930s (see Katznelson 1986; Nigro and Richardson 1987). In Britain, for example, the expansion of the public sector was functional to the requirements of its private capitalist economy (Clegg 1983, 2).

In almost every state, various public agencies and departments are involved in certain domestic and international activities that benefit private enterprises. For instance, the private enterprises gain considerably by using infrastructures (such as roads, highways, and utilities) maintained by public agencies, recruiting employees educated by public colleges and universities, enjoying stability maintained by public law and order, and pursuing international trade facilitated by public officials through diplomatic means and inter-state negotiations.<sup>37</sup> This role of the state in serving the interests of market enterprises implies a more collaborative rather than dichotomous relationship between the two.<sup>38</sup>

On the other hand, the recent cutback of public sector was pursued by the government not only to overcome its financial difficulty as mentioned by some scholars (Asmerom 1994; Gupta 1994), but also due to the growing influence of



private enterprises to transfer resources and services from the public sector to private sector through privatization (Levie 1983; Martin 1993). According to Martin (1993, 7), "it is precisely these dimensions of the effects of privatization [i.e. transfer of resources to the private sector by the state itself] that are concealed by preoccupation with the public-private dichotomy." In other words, for Martin, the manifest public-private dichotomy conceals the underlying role of the state in serving the interests of the private sector. In short, the expansion of public sector in response to different market crises, the gains of private enterprises from various state activities, and the current state initiative to privatize public assets that benefit private enterprises, indicate that the assumption of a functional state-market or public-private dichotomy is questionable.<sup>39</sup>

### SUMMARY AND CONCLUSION

In this article, it has been argued that for various reasons, the scope of the public service expanded in the past in almost all societies and there have been always some critics of such expansive public bureaucracies. However, the contemporary attacks on the public service introduced by the proponents of privatization are much severer than its past assaults because, unlike its past critics, these privatization advocates not only present a pejorative image of the public service by highlighting primarily its shortcomings and failures, they also tend to glorify the achievements of private enterprises and promote the gradual replacement of public service through privatization. Thus, it is argued that the prevailing worldwide movement of privatization has created significant challenges to the public service, particularly, to its legitimacy, ethics, and motivational foundation. While the legitimacy challenge to the public service is evident in its declining public confidence, the ethical challenge can be understood from its current ethical dislocation caused by the replacement of traditional public service norms by pro-market values, and the motivational challenge is manifested in the increasing rate of resignation, brain-drain, and antipathy among public employees.<sup>40</sup>

Since these challenges are posed predominantly by the business, political, and intellectual advocates of privatization, an attempt has been made to critically analyze their claims and assumptions. From this critical analysis, it has been concluded that the claims of efficiency, welfare, fairness, and distribution are difficult to uphold and the assumptions of public-private comparability and state-market separation are not always sustainable. However, there is a serious need for more critical studies to reexamine the validity of these claims and assumptions more intensively, to promote a further understanding of the actual role of public and private sectors, and thereby, to create at least a conducive intellectual atmosphere for overcoming the current challenges to the public service.

At this conclusive stage of the essay, however, it is necessary to understand that the role of public service will always remain essential for any society, economy, and polity. Its role is crucial not only for the proper functioning of the state and society, but also for private enterprises themselves: the private sector cannot function effectively without a legitimate public service, especially in the context of the emerging critical conditions of the corporate capitalist market. As Massey

(1993, 126) suggests, "the freedom enjoyed by the private sector, indeed the private sector itself, is contingent upon a strong state enforcing the preconditions necessary for a free market." In addition, for overcoming the existing conditions of poverty, malnutrition, illiteracy, inequality, and dependence in Third World countries and the deteriorating situation of crime, violence, homelessness, incurable diseases, and other predicaments in developed societies, the public service will still play a significant role because these problems are rarely addressed by private enterprises (Frederickson 1987; Smith 1991; Carchedi 1994; Esman 1991).

In economic terms, due to the recurring problems of market failure in advanced capitalist countries and the growing international tendency toward economic protectionism and regionalism, the role of state bureaucracy will remain essential for private corporations (Farazmand 1989; Hart and Wasden 1990; ILO 1995) to revive the market, absorb its social costs, and facilitate favorable international terms of trade. In addition, for addressing some of the current global catastrophes, such as environmental and ecological disasters, the public service in each nation has to play considerable role, because it is less likely that the private sector would respond to such serious but non-profit-making, public concerns. Since private enterprises themselves often create various negative externalities such as environmental pollution and economic inequality, it is more likely that privatization would accentuate rather than diminish such negative outcomes (Carchedi 1994; Aage 1994). Thus, the role of public organizations would remain crucial to rectify such adverse conditions by regulating and controlling the private sector.<sup>41</sup>

However, these arguments are not to reject the policies of privatization altogether and endorse all activities undertaken by the public service. While it is essential to transcend the current ideological tendency of the privatization movement that is less inclined to be self-critical, it is also necessary to consider privatization as a policy issue which needs to be objectively evaluated in terms of its strengths and limitations, its relevance to the social, political, and economic context, and its implications for different groups and classes in society. Similarly, there is a need for the structural, functional, attitudinal, and ideological reconstruction of the public service itself, although the proponents of privatization tend to deflect attention away from the possibility of such reconstruction (Whitfield 1992; Clarke 1994a; Esman 1991). In many Third World countries and the remaining socialist states, public service has to overcome its bureaucratic rigidity, overcentralization, unresponsiveness, and dehumanizing nature. On the other hand, the public service in capitalist nations needs to change its role in serving the concerns of private enterprises often at the expense of common public interests. In short, in addition to the critique and reevaluation of privatization, considerable changes in the praxis of public service are essential for overcoming the current challenges to its legitimacy, ethics, and motivation.

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## NOTES

<sup>1</sup>In the early 1980s, the public sector employed almost 20 percent of the national labor force in France and the U.S., 32 percent in Britain, and 40 percent in Sweden (see Harris 1990; Pempel 1984; Davies 1988). In terms of expenditure, public sector accounted for almost 35 percent of the GDP (Gross Domestic Product) in the U.S., 45 percent in Britain, 57 percent in Sweden, and 60 percent in Italy (Dye and Zeigler 1986; Peters 1984; Harris 1990; Davies 1988; Levine, Peters, and Thompson 1990). In the Third World, government expenditure in the early 1980s constituted almost 15 percent of the GDP in Colombia, 18 percent in India, 21

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percent in Kenya, 46 percent in Peru, and 60 percent in Venezuela (Peters 1984; Harris 1990; Kasza 1987).

<sup>2</sup>For this information about the "overall public expenditures" in 1990, see OECD (1993, 352). However, for information regarding the amount of "central government expenditures" (excluding provincial and local government expenditures) in 1992, see World Bank (1994a, 181).

<sup>3</sup>For instance, the central government expenditure in 1992 was 16.8 percent of the GNP (Gross National Product) in India, 21.7 percent in Pakistan, 28.2 percent in Sri Lanka, 19.2 percent in Indonesia, 29.4 percent in Malaysia, 19.4 percent in the Philippines, 25.6 percent in Brazil, 17.9 percent in Mexico, 22.1 percent in Chile, 22.4 percent in Venezuela, 30.7 percent in Kenya, 34.8 percent in Zimbabwe, and 40.4 percent in Botswana (World Bank 1994a, 180-1).

<sup>4</sup>In this regard, Jennings (1991, 114) explains the situation in the U.S. during the 1960s and 1970s: "city, state, and national governments enormously expanded their activities. From health care to welfare, from environmental protection to safety in the work place, from civil rights to employment and training, new initiatives were put in place."

<sup>5</sup>In general, privatization is understood as "the transfer of assets and service functions from public to private hands" (Hanke 1987, 4). Such interpretation is also held by others (Heald 1990, 4; Savas 1987, 3; Dalal 1991, 81). In terms of scope, privatization covers a broad range of activities: it includes the transfer of ownership from the public to private sector by selling state-owned assets and enterprises; the contracting out of public services to private contractors mainly for production purpose while maintaining regulatory control; the liberalization of government monopolies and the endorsement of private enterprises to promote competition; the withdrawal of government regulations over the market enterprises; the substitution of user charges for tax finance; and so on (Heald 1990; Hanke 1987; Aharoni 1986).

<sup>6</sup>Privatization can be considered as a movement, particularly, since its endorsement has been global and influence all-pervasive. Privatization has been advocated and practiced not only by the developed market economies (such as the U.S., Canada, Britain, France, Germany, Portugal, and Italy), it has been also adopted by many Asian, African and Latin American countries, and more recently, by the former socialist states in Eastern Europe, the Soviet republics, and other communist nations like Vietnam and China (see Pirie 1988, 12-14; Cowan 1987, 7-15; Fitzgerald 1988, 263-99; Linowes 1988, 4-5; Lee and Nellis 1991, 114; Vickers and Wright 1988, 1).

<sup>7</sup>For an extensive analysis of both the "benevolent" and "malevolent" views of bureaucracy, see Hartwig (1990, 206-27) and Pitt (1979, 4-19). Also see Albrow (1970, 89-90), Blau and Meyer (1987, 139-61), and Goodsell (1988, 27-9).



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<sup>8</sup>As Heald (1990, 6) points out, "there has been a widespread loss of confidence in 'public' solutions . . . In contrast, privatization is seen as a 'clear break'."

<sup>9</sup>For instance, it is suggested that the neoconservative political leaders in the U.S., Britain, and France used privatization as a platform to attract voters and win election (Feigenbaum and Henig 1994; Dobek 1993; Dwivedi 1994); the military and business elites supported privatization to gain from privatized assets in Latin America and Asia (Jain 1994a; Pai 1994); the World Bank, the IMF, and the USAID imposed privatization programs on many Third World countries as a precondition of foreign aid (Raghavulu 1994; Pai 1994); and various think tanks and consultancy firms (e.g. the Adam Smith Institute, the Heritage Foundation, the American Enterprise Institute, Equity Expansion International, International Phoenix Corporation) were engaged in advocating privatization (Martin 1993).

<sup>10</sup>For Mayntz (1975, 263-4), the legitimacy of a system is the public belief in such a system and the public acceptance of its right to issue directives. Moreover, as Mitchell (1986, 203) points out, "Although legitimacy may coincide with legality, it is not the same as legality. Law at times changes in response to legitimacy questions." While the legality of an action is a question of whether it is in accordance or compliance with the established laws, the legitimacy of such action is a question of whether it is acceptable to the public at large.

<sup>11</sup>For instance, it has been found that in the 1980s, the political parties and leaders in the U.S. and Britain attacked the public service and used it as a scapegoat to overcome the existing public dissatisfaction with the overall government system (see Campbell and Peters 1988).

<sup>12</sup>According to Peters (1991, 381-5), in the 1980s, the conservative political leaders came into office in Western nations such as the U.S., Britain, and Canada, with specific agendas to reduce the size of the public sector and restore the dominance of free market: they believed, often without any theoretical basis, that the private sector management is superior to the public sector management, and thus, the latter should emulate, or be replaced by, the former. Among international agencies, the World Bank, IMF, the U.S. Agency for International Development, and the British Overseas Development Agency have influenced Third World countries to adopt pro-market policies (Dwivedi 1994; Haque 1992).

<sup>13</sup>In this regard, Andrew Dunsire suggests that the current restructuring of the public service towards divestment is predominantly based on an assertion that public servants "are not to be trusted with the public interest" (mentioned in Dwivedi 1994, 361).

<sup>14</sup>According to Argyriades (1991, 576-9), based on the criteria of efficiency and cost effectiveness, the administrative systems in many countries have been called into question, and such pressure has prompted government agencies to adopt

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business standards to carry out their functions. Thus, the current ethical challenge to the public service is quite different: while the traditional challenge was how to clarify, operationalize, and execute ethical standards such as accountability, equality, neutrality, and representativeness, the current challenge is how to preserve these traditional public service values under the growing pressure to replace them by market values or business standards.

<sup>15</sup> In this regard, Manion (1988, 243) mentions that "public service management is not solely a matter of technique, but of old-fashioned principles and values, and improved understanding and respect between ministers, officials and the people we all serve. . . We cannot just import management practices from the private sector as a solution."

<sup>16</sup> It has been recognized that there are considerable differences between the public service and the private market in terms of the nature of motivational incentives: while private sector employees are motivated mostly by economic or material incentives, for public servants, there are additional sources of job satisfaction such as prestige, honor, recognition, a sense of public service, and so on (see Burke 1986, 91; Gortner Mahler, and Nicholson 1987, 346).

<sup>17</sup> In fact, the 1988 GAO report had already established that the public criticisms of federal employees had significant influence on their decisions to leave (Wilson 1994, 13).

<sup>18</sup> For instance, American public servants have been considerably affected by the ideology of public choice and the rise of policy analysis (Ingraham and Rosenbloom 1990, 214; Wildavsky 1988, 753).

<sup>19</sup> As mentioned in the preceding discussion, this legitimacy crisis refers to the decline in public confidence in the public service; and the ethical challenge reflects the replacement of traditional public service values, such as neutrality, accountability, integrity, equality, and representativeness, by the market norms such as utility, efficiency, and profitability.

<sup>20</sup> More specifically, as discussed above, it is not only that the legitimation challenge to the public service has led to its ethical challenge, and the ethical challenge to its motivational challenge. It is also the fact that the motivational challenge to the public service has accentuated its ethical challenge, and its ethical challenge has perpetuated its legitimation challenge.

<sup>21</sup> Between 1990 and 1992, the GNP per capita declined from \$2,320 to \$1,330 in Bulgaria, \$1,680 to \$1,130 in Romania, \$2,020 to \$780 in Armenia, \$4,400 to \$2,760 in Estonia, \$4,150 to \$1,930 in Latvia, \$2,090 to \$1,300 in Moldova, \$3,780 to \$2,510 in Russian Federation, and so on (World Bank 1994b, 5).

<sup>22</sup> In 1992, the average annual rate of inflation was 1,353.0 percent in Russian Federation, 1,194.3 percent in Lithuania, 1,009.0 percent in Estonia,

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1,445.3 percent in Ukraine, 1,032.4 percent in Latvia, and 1,057.1 percent in Moldova (UNDP 1994, 206).

<sup>23</sup> Even without taking over the privatized enterprises, the large multinational corporations are already difficult to control or regulate by a single government. According to LeVine (1989, 689), "the large MNCs can have one or more heads cut off, but still manage to survive comfortably in other parts, even to regenerate elsewhere. . . They appear almost as autonomous actors on the international scene, 'near-sovereign,' difficult to control and largely unaccountable . . ."

<sup>24</sup> The current living standards in Latin America and Sub-Saharan Africa are lower than they were in the early 1970s (Smith 1991, 33). In many Third World countries that have adopted the structural adjustment policies, the provision of school and health care for the poor has diminished and the condition of their malnutrition and infant mortality has worsened (see Martin 1993, 77, 128).

<sup>25</sup> According to a 1994 Unicef report, after the pro-market economic reforms in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, and Ukraine, the living standards have declined, poverty-related diseases such as tuberculosis and cholera have upsurged, shortages of medicine and food items have become critical, and number of poverty-related deaths has upsurged. In China, the higher rate of economic growth has coincided with an increase in unemployment, which could soar to 268 million (22% of its 1.2 billion people) by the turn of the century (International Herald Tribune 1994 [August 17], 13).

<sup>26</sup> According to Mitchell (1986, 197-206), even when private corporations make financial contributions to social and cultural activities, they usually do so not with an intention to advance people's welfare, but with a motive to create positive public attitude towards business, strengthen the legitimacy of business power, and eventually, make more profit.

<sup>27</sup> For instance, in Russia, in the first six months of 1993 alone, a total of 68,000 enterprises were privatized (Banerji 1993); in the Czech republic, more than 20,000 small enterprises were privatized by 1992, and 1,700 large enterprises were in the privatization list (Gidadhubli and Kumar 1993); and in China, there were already 98,000 private enterprises in 1990 (Hing 1994).

<sup>28</sup> For instance, in the 1980s, about 24 percent of the U.S. cities and counties sold off public assets such as airports, electric and gas utilities, ports, and highways; 32 percent of cities and counties privatized public facilities such as roads, bridges, tunnels, street lights, and sewers; and nearly 99 percent of cities and counties contracted out services (see Henry 1995, 335; Clements 1994, 89).

<sup>29</sup> For instance, in the phase of structural adjustment and privatization, the number of government employees in Indonesia increased from 2.05 million in 1980

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to 3.78 million in 1990, which has been described as *inflasi pegawai* or "inflation of bureaucracy" (Evers 1994, 270).

<sup>30</sup> Between 1980 and 1992, the central government expenditure as a percentage of GNP increased from 13.2 to 16.8 percent in India, from 17.7 to 21.7 percent in Pakistan, from 14.2 to 18.7 percent in Nepal, from 13.4 to 19.4 percent in the Philippines, from 20.9 to 25.6 percent in Brazil, from 17.4 to 17.9 percent in Mexico, from 26.1 to 30.7 percent in Kenya, from 36.5 to 40.4 percent in Botswana, and so on (World Bank 1994a).

<sup>31</sup> Between 1980 and 1992, the external debt of India increased from \$20.58 billion to \$76.98 billion, Indonesia \$20.94 billion to \$84.39 billion, Nigeria \$8.93 billion to \$30.96 billion, Egypt \$20.91 billion to \$40.02 billion, Brazil \$71.01 billion to \$121.11 billion, Mexico \$57.38 billion to \$113.38 billion, Poland \$8.89 billion to \$48.52 billion, Russian Federation \$2.24 billion to \$78.66 billion, and so on (World Bank 1994a). Privatization has not even diminished the amount of budget deficit in many countries: the U.S. government deficit increased from \$76.2 billion in 1980 to \$212.1 billion in 1985 to \$272.5 billion in 1991 (World Bank 1994b, 692-3).

<sup>32</sup> The Defense Department alone has 25,000 auditors and inspectors to check up procurement regulations issued by 79 Pentagon offices that report to 55 congressional sub-committees and 29 congressional committees (Henry 1995, 323)

<sup>33</sup> According to Gupta (1994, 399), "Privatization itself involves a tedious exercise. . . . As such, *the role of public bureaucracy has increased tremendously in the wake of privatization* [italic added]."

<sup>34</sup> In regard to the international military and economic policies of the U.S. government, Donahue (1989, 21) suggests that it is difficult to explain the legitimacy of such policies in pure economic language because the legitimacy of these activities are beyond economics.

<sup>35</sup> For instance, the low-cost health care and education facilities provided by health and education ministries produce physically fit and skilled human resource used not only by other public agencies but also by private enterprises.

<sup>36</sup> In this regard, Hugh Stretton mentions that in Australia, people have a tendency to emphasize the taxes they pay to the public sector while deemphasize what they receive from it as collective goods such as public health, highways, care for old age, education, and so on (see Davis et al. 1988, 39-40).

<sup>37</sup> In this regard, it has been pointed out by the ILO (1995, 4) that "the public education system prepares workers for private employers . . . the state provides the infrastructure for business, and perhaps protective measures, incentive subsidies as well; the state must often take action in the event of market failure . . ."

<sup>38</sup> The question here is not whether the private sector performs these functions more "efficiently" as claimed by the privatization advocates, although

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some of these activities (e.g. the maintenance of external security and the inter-state trade negotiations) are unlikely to be privatized and taken over by private enterprises. The point here is that whenever the state is involved in performing the functions of maintaining internal and external security, building infrastructure, educating and training the labor force, and negotiating international exchange, most private enterprises gain from them.

<sup>39</sup>In describing the crucial role of the state in protecting and benefiting the private enterprises in the U.S., Petras (1990, 162) suggests that "The revisionist distinction between a state centered versus free market economy is a phony one, particularly since 1980s."

<sup>40</sup>The connotations of these three forms of challenges to the public service (i.e. legitimacy challenge, ethical challenge, and motivational challenge), including their empirical manifestations, have been already presented elsewhere in this article.

<sup>41</sup>In this regard, Esman (1991, 463) mentions that privatization "creates the need for fresh regulation to protect the public interest from the abuses of market operations."