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PRIVITAZATION AND NATIONALIZATION

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The term privatization is generally used to mean the transfer of assets from the state or one of its agencies to the private sector in exchange for money. Examples of privatization in the recent past include the sale of Air Canada and the Raffinerie de sucre du Québec to private concerns.

Historically, privatization has generally been preceded by a trend operating in the opposite direction – namely, nationalization, or the transfer of assets to the state from organizations in the private sphere, either in exchange for money or through expropriation. A recent example of this phenomenon is the nationalization of Quebec's electricity companies in 1962 and the subsequent establishment of Hydro-Québec, the state electricity corporation. Likewise, right after World War II, the French government led by General de Gaulle nationalized the Renault car company in retaliation for the Renault family's collaboration with Nazi Germany.

The roots of privatization may be traced far back in time. When European monarchs and Chinese emperors sold royal prerogatives to private persons, they were in effect privatizing certain rights. For example, a king could entrust the collection of taxes or tariffs, or taxation in general, to private individuals who, in return, would pay the king a sum of money or a fixed percentage. Another instance is the creation of the East India Company in 17th-century England by a royal charter that permitted private merchants to purchase certain trading rights. Even today, the creation of companies and the laws that regulate such creation almost everywhere may be viewed as the privatization of royal prerogatives and privileges.

In the modern era, nationalization is a relatively recent phenomenon. In some cases, governments were prompted to take over certain assets in reaction to abuses committed by private enterprise and public outcry over them. When Franklin D. Roosevelt was governor of New York, just prior to the Great Depression, he fought to obtain state control of hydroelectric production because private companies were exploiting their monopoly to charge their captive customers what were considered exorbitant rates (Hafsi and Demers, 1989).

The modern era also saw instances of nationalization that accompanied changes undergone by countries in the wake of World War II. European economies, crippled by war and depression, could not regain health without massive government investment. A dearth of credible private actors who would be acceptable in the eyes of the population led to the creation of a public sector based on the nationalization of large companies that either were considered unworthy because of their conduct during the war or had run out of funds. Such reasons lay behind the nationalization of the steel, coal and automobile industries. This was also the period when major public services, like electricity, were nationalized on the basis of economic analysis. However, the main rationale for these nationalizations lay in the existence of natural monopolies, in which prices tended to drop to the level of marginal prices, and thus below average prices, thus creating financial hardship for all competing companies found and generally causing harm to the common good. Nationalization prevented competition, but placed industry in the hands of the state, thought to be more reliable and fairer for consumers (Stoffaës and Victorri, 1977).

To be fully understood, nationalization must be contextualized. It is helpful to consider three factors: the nature of the objectives expressed by the state, the motivations proposed by academic analyses, and cultural and geographic considerations (Hafsi, 1984).

When an industry is nationalized, government officials generally talk about objectives of four types, which taken together describe the role of the public sector both in post-war Europe and in developing countries after gaining independence. These objectives are: 1) economic and social control, 2) economic equilibrium and development, 3) fostering sociopolitical stability and fairness, and 4) safeguarding national sovereignty.

Academic analyses instead propose that nationalization is mainly motivated by the following four factors: ideological reasons (promoting control of assets by representatives of the people), desire for bureaucratic control (exemplified by nationalizations carried out by the British Labour party after the World War II and by the French Socialist party in 1981), electoral goals (as in the United Kingdom in the 1970s and 1980s, when contemporary political stakes prompted instances of both nationalization and denationalization) and political considerations (for example, nationalization carried out by the French Socialists with the aim of increasing the party's leverage over the economy).

In the modern era, privatization is a comparatively new phenomenon, too. It has generally been part of a reaction to crises in the welfare state and to the Keynesian policies adopted in post-war U.S.A. and Europe. The large-scale development of the public sector following nationalizations and the statist philosophy of the 1950s to 1970s made government management not only much more complex but also much more costly (Barbe et al, 1986). Taxes reached levels that triggered taxpayers' revolts here and there throughout the world and particularly in the United States. The neoliberal philosophy championed by certain economists and academics since the 1960s – advocating the reduction of state machinery and the impact of bureaucracy on society – took on new life in the early 1980s with the major boost it received from Margaret Thatcher as Prime Minister of the United Kingdom and Ronald Reagan as President of the United States. The ensuing changes amounted to a real revolution in state administration, unleashing an unprecedented wave of privatization and giving rise to the concept of new public management.

This wave of large-scale privatization took on a global dimension when it was promoted by the IMF and the World Bank in applying what is called the Washington Consensus and developing structural adjustment programs. In concrete terms, privatization affected all sectors of activity in Western countries, and it is now considered normal to entrust the private sector with any activity of measurable economic value. Large state enterprises have disappeared from major developed nations, except in the case of certain public entities providing services like water and electricity. The same philosophy is generally accepted in developing nations, but the weakness of the private sector means that the state continues to play a direct role in the economy. The clearest example of this comes from China, where the public sector was still dominant in 2010, even though the country has espoused the philosophy of market coordination. The same is true in most countries that are poorly or not fully developed.

Privatization and nationalization are two sides of the same coin. The state is responsible for the social and economic stability of its citizens. This stability often depends on the implementation of large-scale economic or social activities. In this context, it is conceivable for the state to assume the role of a major stage director and occasionally that of actor. It lays the groundwork for private initiatives so that activities considered necessary can be undertaken under socially and politically acceptable conditions by actors other than the state – that is, by the private sector or, today, by what is sometimes referred to as the third sector, covering not-for-profit and non-governmental organizations. When the private sector and other social agents are not in a position to conduct these activities, the state is obliged to do so itself. The state often takes on this role in the case of fledgling or moribund industries (sunrise or sunset industries, as termed by Thurow, 1980). Given the great number of activities that may potentially call for state intervention, it is very important that such intervention be considered temporary, lasting only as long as it takes for private actors to be able to take charge of the activity under reasonable conditions. The state is thus continuously involved either nationalizing an activity or creating new state enterprises. It is also constantly involved in privatization so as to free itself from activities that no longer require its intervention. Privatization and nationalization are thus always part of modern society, although their relative scale or weight may vary from one period to another.

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