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Nationalization and privatization in modern economy

Salayeva Quvonchoy Rustam qizi
Economics faculty,
Tashkent State University of Economics,
49, Tashkent 100066, Uzbekistan
quvonchoysalayeva2004@gmail.com

Abstract: This article is devoted to deep analysis and comparison between nationalization and privatization which are two economic policies that transfer ownership and control of assets from the public sector to the private sector or vice versa. Nationalization is when the government controls private companies or assets, making them the state's property. The transfer of ownership, property or business from the government to the private sector is termed privatization. The government ceases to be the owner of the entity or business. The process in which a publicly-traded company is taken over by a few people is also called privatization.

Key words: nationalization, privatization, ownership, transferring, property, government, publicly-traded company, Corbyn’s policies

Nationalization and privatizations respectively describe the process by which assets and/or enterprises are transferred into public and private ownership. Nationalization is also used to refer to the transfer of assets and/or enterprises from the hands of municipal and local governments into the ownership of central government. Privatisation means the sale to the public of at least 50% of those state-owned industry shares. Commonly associated, although clearly different, from these ownership issues are the terms deregulation and liberalisation. By deregulation is meant a loosening of the regulations affecting

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the industry, and at times an implicit hope that this will encourage new entrants. Liberalisation is a more definite statement of intent to open up the market to greater competition. While historians tend to focus on the transfer of ownership effected by nationalisation and privatisation, for economists and business historians there has been at least as great an interest in efforts made to reintroduce competition into these monopolistic nationalised industries. The potential for liberalising markets in energy and telecommunications in turn begs the question of why such industries were organised in monopoly form. Often the restructuring of an industry into monopoly form had almost been taken-for-granted as an inevitable accompaniment of that industry's nationalisation. In many ways, at least as interesting as the question of why industries moved in to and out of nationalised ownership, is why competition was suppressed in industries at nationalisation, and then to what extent, and how, it was reintroduced before, at or after privatisation. Given the wealth of literature concerning the issues ownership, this article will concentrate on the scope for competition in sometime-nationalised industries. In particular, not least because of the current interest in the privatisation of Electricité de France, the paper will concentrate on the energy industries and on electricity in particular. As is the case with telecommunications, concentration on the electricity industry allows comparisons to be made with the deregulatory experience of the United States. Although generally not espousing nationalisation, the *Public Utilities Holding Company Act* of 1935, and *Natural Gas Act* of 1938, effectively established the us electricity and gas industries as vertically integrated regional monopolies subject to cost-of-service regulation. It was not until the deregulation movement of the 1970s that these "natural monopoly" utilities were to be subject again to the threat of competition.

Arguments for and against nationalisation

Proponents of nationalisation make three main arguments:

1. The owners of a private company are not interested in your wellbeing. They are not interested in the common good. They are

interested in their own profit. Nationalisation, according to this argument, means taking away the profit motive, and replacing it with an orientation towards the public good.

2. A private company is only focused on its core business, not on wider social issues. They are not interested in combating climate change, or levelling-up, or whatever else we may consider desirable. A state-owned company, on the other hand, can focus on whatever we want it to focus on. Its actions can be integrated into the pursuit of wider social objectives.

3. Parts of the economy that affect society as a whole should be run by society as a whole. Private companies are only accountable to their shareholders, state-owned companies are accountable to parliament, and therefore, indirectly, to all of us.

Proponents of privatisation dispute all three arguments:

1. Eliminating the profit motive does not eliminate self-interest. It may eliminate financial self-interest, but it only replaces it with self-interest of a different kind. Self-interest does not have to be financial. We all know this from our personal lives. We all act in self-interested ways sometimes, and most of the time, this has nothing to do with money. Self-interest can mean lots of things: minimising work effort, pursuit of power, pursuit of status, pursuit of ideological preferences, to name just a few. All of these can be present in nationalised industries. In a competitive market, they are held in check.

2. Nationalised industries will get politicised. They will get recruited into the pursuit of political objectives. For example, there is a study which looks at hospital closures in the UK, and which shows that marginal seats are much less likely to be affected by those than seats which always vote for the same party. That's weird, you may think. Surely, the allocation of hospital resources should be driven by clinical

considerations. What does the political makeup of a place have to do with it? But it makes political sense. Hospital closures are unpopular, so if you are in government, you will try to concentrate them either in safe seats that will vote for you anyway, or in seats that you have written off as a lost cause. If governments want to pursue social objectives, they should do so directly, not via some business. Businesses should just focus on whatever it is that they do.

3. Accountability through politics is an extremely weak form of accountability. Yes, in principle, we could imagine a situation in which one party wants to run the nationalised industries in one way, while a different party wants to run them in a different way, and you could compare the two strategies and vote for whichever seems best to you. But if you did that – you would be a very unusual voter indeed. Most of the time, political decisions are nowhere near as specific as that. Most of the time, we listen to a few political speeches, and then we vote for whoever seems vaguely competent and trustworthy to us. If you can name three or four policies of whoever you vote for, you are already a very well-informed voter. The accountability of the marketplace, where you can just switch suppliers if you're not happy, is much stronger and more meaningful.

Arguments for and against privatization

Potential benefits of privatization

1. Improved efficiency

The main argument for privatisation is that private companies have a profit incentive to cut costs and be more efficient. If you work for a government run industry managers do not usually share in any profits. However, a private firm is interested in making a profit, and so it is more likely to cut costs and be efficient. Since privatisation, companies such as BT, and British Airways have shown degrees of improved efficiency and higher profitability.

2. Lack of political interference

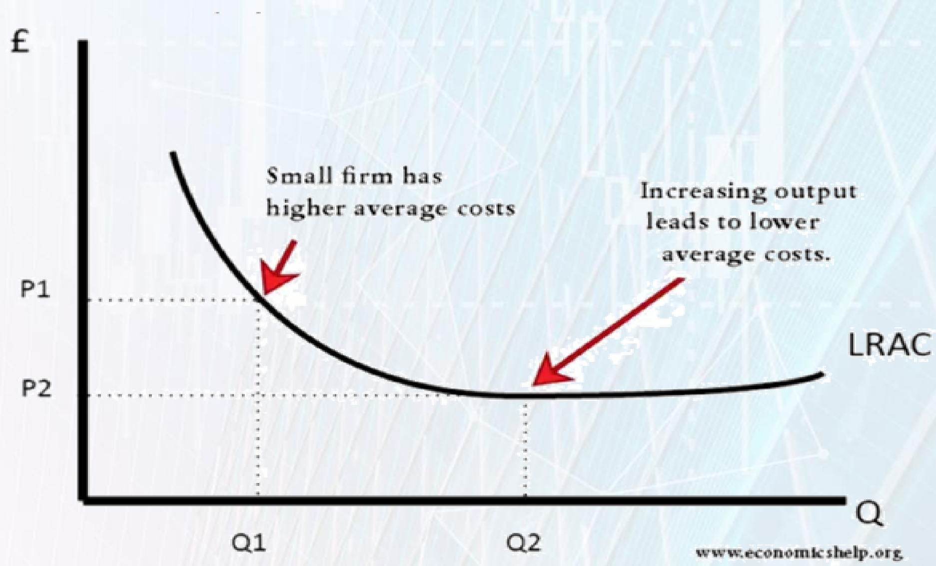
It is argued governments make poor economic managers. They are motivated by political pressures rather than sound economic and business sense. For example, a state enterprise may employ surplus workers which is inefficient. The government may be reluctant to get rid of the workers because of the negative publicity involved in job losses. Therefore, state-owned enterprises often employ too many workers increasing inefficiency.

3. Short term view

A government many think only in terms of the next election. Therefore, they may be unwilling to invest in infrastructure improvements which will benefit the firm in the long term because they are more concerned about projects that give a benefit before the election. It is easier to cut public sector investment than frontline services like healthcare.

Disadvantages of privatization

1.Natural monopoly



A natural monopoly occurs when the most efficient number of firms in an industry is one. For example, tap water has very high fixed costs. Therefore there is no scope for having competition among several firms. Therefore, in this case, privatisation would just create a private monopoly which might seek to set higher prices which exploit consumers. Therefore it is better to have a public monopoly rather than a private monopoly which can exploit the consumer.

2. Public interest

There are many industries which perform an important public service, e.g., health care, education and public transport. In these industries, the profit motive shouldn't be the primary objective of firms and the industry. For example, in the case of health care, it is feared privatising health care would mean a greater priority is given to profit rather than patient care. Also, in an industry like health care, arguably we don't need a profit motive to improve standards. When doctors treat patients, they are unlikely to try harder if they get a bonus.

3. Government loses out on potential dividends.

Many of the privatised companies in the UK are quite profitable. This means the government misses out on their dividends, instead going to wealthy shareholders.

Case study:

Carillion After the 2018 collapse of the private contractor Carillion, the debate about whether private involvement in the public sector is successful has resurfaced. Carillion entered liquidation and ceased trading. On the surface, it may seem that this is just a construction company that has collapsed. However, this private failure is a big problem for the government. The public sector has paid £1.4 billion to private-finance companies where Carillion has a stake, and predicted future payments are estimated to cost £6.3 billion. Carillion owned stakes in 17 private-finance contracts, primarily for hospitals, schools and roads. Supporters of outsourcing to private firms would argue that the public sector may not have been any better at providing these services and may have been a lot more expensive. Governments have seen this as a way of transferring risk away from the public sector, i.e. it is worth the price, as if something goes wrong the company will have to deal with it. However, this is not the case when the company collapses. The liquidation of Carillion shows that such involvement of the private sector in the public sector has failed. The government has been placed in a difficult position. Should it have bailed out Carillion to save the infrastructure projects it was involved in? If it had, it would have undermined any future bidding by private firms. Private firms may bid knowing that they could not afford to carry out such projects, safe in the knowledge that the government would not allow them to fail. The government will need to address the issues around private-sector contracts in future and be sure that it provides better value and lower risk than leaving it to the public sector.

Full circle: Corbyn's policies:

Despite an increase in private-sector involvement in the public sector, over the past few years the UK has increasingly accepted renationalisation. Alongside the nationalisation of high-profile banks and transport services in the UK, nationalisation has also happened across western Europe. Although we have not seen a complete shift in how our services are currently run, Labour leader Jeremy Corbyn would like to change this. If the Labour Party were to be elected, Corbyn would like to see rail, energy, water and the postal service renationalised. Previously nationalised coal, electricity and gas had a poor performance record and were underinvested. It is argued that it would cost at least £124 billion to nationalise just the UK's top six utility companies. A recent report warns that nationalisation on this scale could cause a sharp increase in the government's borrowing costs and crowd out private sector investment. However, those in favour of Labour's plans believe these fears are exaggerated and the profits generated would cover such borrowing costs. UK railways are already partly nationalised; current franchises are awarded to the highest bidders at competitive auctions. Out of 20 franchises, 14 are now state-owned, which suggests that they are at least efficient enough to compete and undercut private operators.

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There is no definitive answer as to whether we should have more privatisation or nationalisation. It depends on the amount of competition present in the market. Privatisation is not beneficial if there is simply a transfer of a natural monopoly into private hands. However, there are also cases where inefficient and poorly run public services can benefit from private involvement. Therefore, what is needed is a thorough evaluation of whether an individual service or industry could benefit from privatisation or nationalisation. There needs to be a strong, long-term investment plan and clear regulation put in place irrespective of whether there is private or public ownership.

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