THEORETICAL MOTIVATION OF PRIVATIZATION PROGRAMS

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"Market when possible, State when necessary".
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Resumo

O objetivo deste trabalho é discutir as razões históricas e teóricas para a redução da intervenção estatal, quais sejam: o crescimento do déficit público, a ineficiência das empresas estatais e as mudanças tecnológicas. Esses fatores estão associados aos efeitos macroeconômicos que se espera obter com a privatização, os quais por sua vez dependem da condução do processo. Além disso pretende-se mostrar como as variáveis históricas e teóricas conduziram a uma reavaliação do papel do Estado na economia, criando as condições para a alteração da *rationale* da intervenção. Discute-se esse novo padrão de intervenção do Estado, o qual precisa incorporar os critérios de eficiência de mercado, sem deixar de lado os objetivos de crescimento e desenvolvimento no longo prazo.

Abstract

The objective of this paper is to discuss the historical and theoretical reasons for reduction of State intervention, which are: the growth of public deficit, the inefficiency of State-owned firms and technological changes. These factors are associated with macroeconomic effects that one hopes to obtain with privatization, which in turn depend on how the process is steered. Besides that, one intends to show how the historical and theoretical variables compelled a revaluation of the role of the State in the economy, generating the conditions to alter the *rationale* of intervention. One discusses this new standard of intervention of the State, which needs to incorporate the criterion of marketable efficiency, without forgetting the target of growth and development in the long term.

1. MOTIVATION FOR PRIVATIZATION: WHY PRIVATIZE?

1.1. INTRODUCTION

In the last 50 years, the role of the State changed from interventionist to liberal and the prognostic of privatization became predominant in the academic centers, among economists of international organs, and, surprisingly, even among left-wing politicians, for whom State intervention is now a problem and not a solutions as it was in the past.

After the crisis of '29, the structurist thesis that capitalism would be anarchical, and the government could alter the natural trajectory of economy, gave support to interventionist action. In the last 50 years, on the contrary, the academic debate appears to have been won by the monetarists, who demonstrate that in the long term the market would efficiently allocate the resources. Besides this, the Schumpeterian proposition that in the short term there would be a trade-off between price and technological innovation, but in the long term the consumer would be benefited by the fall of prices, this seems to have been surpassed by the price competition proposition.

However, even if the governmental intervention could be considered inoperative, it has become more frequent in practice. The explanation for that, according to authors from the Public Choice School, would be the private benefit for the economic policy-makers that seek to combat unemployment and increase public deficit with the proposition of perpetuating power. Another explanation was presented by Nogueira Batista (1994) for

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whom the liberal assertion of privatization and the end of the interventionist State would be defended only for the developing countries since the developed countries would not apply it. These authors point out the fact that public expenditure has increased since the 80's and privatization takes place only in Third World countries. Anyway, the movement to return to the non-interventionist conception has been associated with crises that are characterized by high levels of indebtedness and inflation attributed to rising participation of the State in the economy.

The liberal authors postulated, then, that in favor of greater efficiency and even economic stabilization, State activity should be lowered as much as possible. However, the necessity to encourage development in the long term frequently replaces the belief that the State should not be weak but only less heavy in terms of expenses and more integrated with the private sector. Thus, seeking a new model of the State would move toward correcting market failures.

This article's objective is to show how the historical and theoretical variables conduce a reevaluation of the role of the State in the economy, generating the conditions to alter intervention motivation. One discusses this new standard of State intervention, which needs to incorporate the criteria of market efficiency, without forgetting the objectives of economic growth and development in the long term.

The first section describes the logic that permeated State intervention in the economy for a long time, before it was seen as an impulsive element of development that generated industrialization in the underdeveloped countries and removed the economies from the crises.

The second section points out the arguments that justify the reduction of governmental intervention. The privatization bases itself in the diagnostic that the interventionist State is responsible for increases in public deficits and falls of productivity in the economy. The technological change acts as a pre-requisite, even allowing the activity considered typical of the State, to be assumed by private initiative.

In the third section, one presents the new role attributed to the State. The various factors pointed out to justify privatization have the seeking of a better efficiency in the economy in common, through the breaking of monopolies and the substitution by private administration in the enterprises. However, the State's role in the regulation and inspection persists as such with its responsibility relative to development in the long term. One elucidates, thus, the path in the direction of privatizationist ideology and the new model of the State.

1.2. ANTECEDENTS: THE REASONS FOR STATE INTERVENTION

> "Government, it seems safe to say, is one thing that has been growing rapidly in the West. Wherever governments were once small they have become big, and wherever they were big they have become bigger. Nothing is so rare as shrinking government."
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> G.W.Nutter (1978)

The approach that defended State intervention through state-owned enterprises was more widely utilized in various other countries, in particular in Europe after the crisis of '29, and after, at the end of World War II, it received new impetus. According to Berg (1987), in Mexico, the amount of public firms changed from 150 to 600 between 1960 and 1987, while in Brazil it changed from about 150 to approximately 700 between 1960 and 1980 and in Tanzania from 50 to 400 in the same period. The success of the Keynesian economy in removing the American economy from the crisis in the Great-Depression was a stimulus to utilize the State for such a purpose. For Tobin (1986, p. 245), Keynes' vision of economic instability required governmental intervention. Later Prebish (1949) also defended the belief that the government would have the capacity to command the economy and plan globally, while for Hunt (1991, p.449) keynesian theory was not the most adequate to combat economic crisis *vis a vis* the orthodox theory that was behind State action, but there was a strong desire to remove the countries from the crisis anyway: "to teach the universal benefits of the capitalist system was one thing, but when one believes in this ideology and stays passively waiting while the capitalist system was suffering a series of convulsions towards its death was another very different thing".

The role of the State was remarkable due both to the capacity of removing the economies from crises and promoting economic recovery, and of carrying out development in the long term, especially supplying credit, altering the growth standard quantitatively and qualitatively. To this respect, Soury[3] (1977, p.42) affirms: "The State, finally, more directly sustains the profits generalizing the policy of subvention to big firms and finding a way to become permanent. In all parts, the governments substitute the frequently onerous credit of the private banks, by public credit permitting exceptionally advantageous credit conditions, either directly generating the lending organs with State funds, or financing the great banks that lend to enterprises. From 1934 to 1938, the German State spent 240 million German marks only to sustain the dairy industries. In England, in ten years, the sugar industry received 29.5 million pounds of subvention from the government.

In what one refers to in the promotion of economic development as "late comers", one also knows that the State fulfilled a special role of inciter in the industrialization process. There was a belief that the government needed to make a great effort in the infrastructure and to research areas as well as to promote institutional changes to accelerate development, a doctrine named "big-push". According to Tavares (1987) and Galbraith (1983), in the countries that industrialized after England, including Italy, State intervention was extraordinary, revealing that liberalism was already not associated with economic growth and that fitted into the State plan. In this situation, the state-owned firms fulfilled a relevant function because their production and investment were centrally managed. The generation of state-owned enterprises fulfilled an odd role in promoting the growth in the sectors that required long-term investments or were considered absolutely indispensable for elevating the growth rate of the economy. The production of state-owned enterprises was also important to permit the production of goods for the private sector at lower prices, helping in the contention of the effects of oligopoly practices. Therefore, widespread State intervention was basically justified by three factors: the promotion of economic development, the existence of strategic sectors and the occurrence of market failures. In Italy, for example, the State promoted concentration and centralization targeting an impulse in the economy, which started in the 30's. This action began with the transformation of three private banks into state-owned banks: (Banco Comercial Italiano, Crédito Italiano e Banco di Roma) that originated in the IRI (Instituto per la Reconstruzione Industriale) whose initial function was to administrate these banks and their enterprises.

Soon after, the IRI expanded their activities to operate with other state-owned firms - Steel and Iron (Fisider), shipyards (Finame), aeronautic transportation (Alitália), Radio and TV (RAI), among others, it was the biggest conglomerate in Italy and in Europe, representing 71% of the investments made by state-owned enterprises in 1971 in Italy. Italy created state-owned firms to become an industrialized country and absorb unemployed labor. Thus, the ENI (Ente Nazionalie Idrocarburi), a public firm from the hydrocarbon sector that, afterwards, also started to act in engineering activities, petroleum, textiles, and nuclear energy. In 1971, the investments made by ENI represented 18% of the investments of the Italian State Sector. The EGAM- Ente Autonomo de Gestione per la Aziende

[3] In this case, the thesis that the development of capitalism results from direct State action, among other factors, sometimes in the maintenance and broadening of the profile rate of the entrepreneurs, sometimes in the maintenance of reproduction conditions in the capitalist system.

Minerarie Metallugice and GEPPI- Gestione Partecipazione Industriale were important in the Italian economy to give financial support to firms in crisis. For Shapiro & Taylor (1990, p.281), State intervention was viewed as a factor of differentiation in the industrialization process and regarding its role as an organizer of capitalism, they affirm: “Historically, no country has entered into modern economic growth without the state’s targeted intervention or collaboration with large scale private sector enterprises”. This role is emphasized by Tavares (1987, p.2): "It does not matter that the liberal paradigm affirms that the market works well, intervention should be as minimal as possible because in crisis, in war, or the industrial raising of any nation, the State always intervenes".

Although the creation of state-owned firms is the more interesting aspect for our purposes, State intervention assumed diverse forms, among them, the external policy aiming to protect the national industry and the industrial policy through subsidies to the national private sector, always based in the belief that the State should promote economic growth. This proposition can be seen in the work of Dieguez (1968) that affirms that, although Argentina and Australia had had similar development until the start of this century, Australia has developed more because the Australian government acted in the intentional formulation of industrialization policy, while in Argentina the claims of political groups prevailed and discouraged industrial growth.

The political opposition of the Argentine parties was explained by the fact that the development of national industry requested the sacrifice of the population as a whole, with the consumption of inferior quality goods at higher prices. Besides that the agriculturist, in particular, could not have their interests damaged by retaliation from other countries due to protectionist measures. Thus, the Socialist Party was completely opposed to two kinds of measures that would have a contrary effect on the level of the life of the workers: devaluation of the national currency and elevation of tariff barriers. Regarding tariffs, one needs to remember that though there was a substitution of imports, a considerable portion of acquired goods by the workers was still imported, thus, higher tariffs elevated the worker's cost of living.

According to Tourinho & Viana (1993), State intervention has also been utilized to impede the presence of foreign capital in sectors considered strategic for military and economic sovereignty. Although Simonsen (1995b,p.13) criticizes this measure: "The argument that the government should control production in strategic sectors does not stand up to analysis. First, because the selection of these sectors is completely arbitrary: why are petroleum and telecommunications more strategic than agriculture or the automobile industry? Second because, in case of war or emergency, the government has legal instruments to convoke and mobilize the private sector".

Even though the relevance of the factors presented above are elements that explained state intervention in the economy, the center of academic debate on state intervention has focused on the existence of market failures.

Market failures can originate with the following factors: multiple production of merchandise, returns of increasing scale and barriers to the entrance of new firms due to the existence of high costs for potential entrants. Przeworsky (1996, p.117) remembers that: "In the presence of theses failures, the markets do not allocate the resources in efficient ways anymore". This was the observation that delineated the doctrine of state intervention carried out in Germany in the 60's.

State intervention in market failures was important, in the first place, because it permitted the production of goods for the private sector at low prices, helping in the contention of the effects of oligopoly practices. To impede the attainment of great conditions of equilibrium of perfect concurrence, the production in market with failures should be made by the State. Citing Przeworsky (1996, p.117):"The general prescription that arose from this remark was that the market should be left in peace to do what it does well, that is, allocating private resources in cases in which private return rates do not deviate from the social return rates, while the State should provide public goods, facilitate commercial transactions, correct externalities, and regulate natural monopolies".

The assertion that the State should intervene as a producer in markets with failures is not, however, consensual. In one case study, Brueckner & Spiller (1994) indicate that production and productivity increase when the government removes state regulation, and Stiglitz & Brown (1986,p.40) affirm: "Market failure arguments fit well into a social contract theory. Without market failure, the fundamental theorem of welfare economics tells us we would have a Pareto efficient allocation of resources without any need for government. The only way government can serve everyone is for there to be market failure, implying the possibility of Pareto-improving changes in which everyone benefits."

Despite the controversy about these arguments, one can conclude, therefore, that vast state intervention was basically justified by three factors: the promotion of economic development, the existence of strategic sectors and the occurrence of market failures.

1.3 THE REASONS FOR (CONTROVERSIES ABOUT) THE REDUCTION OF STATE INTERVENTION

1.3.1. The increase of public deficit

Since the 70's, state intervention, before considered a propelling element of development, started to be viewed as a cause of economic instability. Be it generating and keeping state-owned enterprises, or be it promoting transference of resources to the private sector; the fact is, according to "Wagner's Law", the growth of public expenditure takes place at the same time as economic increase and it is responsible for the rise in public deficit in various countries. For Fisher (1993) and Easterly & Rebelo (1993), for example, the public deficits tend to negatively impact the saving and growth rates.

Nevertheless, even in the Keynesian framework one can see the reduction of the public deficit as an element of expansion of the economy. For professor Keynes, the principal component of effective demand is the expectancy of gains for the entrepreneurs. This anticipation would be more important than the interest rate and other elements present in the decision of entrepreneurial investment. In this context, Giavazzi & Pagano (1996) suggest that the reduction of the public deficit has a positive effect in the formation of the expectancy that overlaps with ensuing the decrease in government expenditure. Contributing to the fall of the ensuing interest from the reduction of the necessities of resources by the government and of the public debt, collecting less taxes performs in the sense of encouraging investment and consumption.

Besides that, the Keynesian prognostic of counter-cyclic fiscal policy would not have improved the fiscal situation of industrialized and underdeveloped countries neither attenuated regional differences nor reduced the distance between rich and poor countries. Instead of altering the natural trajectory of the economy, the largest government expenditure would have, then, only the result of a wide level of indebtedness and inflation associated with financing of these deficits. As Pereira recognizes: "the Keynesian policies proved not capable of controlling the economy: when inflation accelerated, unemployment grew and the economic growth rate decreased".

Radelet & Sachs (1997) point out the fact that state intervention failed or presented modest outcome offset by high costs. The connection between the increase of government intervention and the enlargement of public deficit, and hence of public debt is pointed out by Roubini (1989) for the case of Italy in the 60's and 80's. in this period, while the participation of the government in the economy changed from 30% of the GDP to 50%, the percentage debt on GDP changed from the 30% to 100%. But if the government's expenditure was considered innocuous in the long term, what is the reason that the governments insist in making them bigger? The increase of the public expenditure, responsible for the rise in public deficit in various countries in the world in the post-war period, was analyzed by the Public Choice School. For the group of authors who compose this theoretical framework - Tullock (1965), Buchanan (1967), Niskanen (1971), Borcherding et alli (1977), McKenzie & Maucaulay (1980), among others, this seeming paradox is justified by the fact that there exists a coalition in favor of expenditure, which would be present in various segments of the society. The motivation of state intervention would be the same as any other economic action: the private interest of somebody who, in this case, cedes the vote for a determined benefit. Also Schumpeter (1942) and Olson (1982) affirm that democracy deviates itself from so called "public interest" due to action of pressure groups and policy-makers who act according to their private aims.

The authors from the Public Choice School, such as Buchanan (1985), showed that private benefit of the policy-makers who sought to perpetuate themselves in power were behind the initiatives to combat unemployment. Robinson (1972, p.6-7), although, wants to absolve Keynes from the responsibility and attribute guilt to post-Keynesian authors. Also Pereira (1997c) believes that a mistake has happened in the interpretation of Keynes' work and there was societal pressure to increase expenditures.

Despite this most general motivation, various thinking currents point out particular causes for the increase of public expenditure, among others: institutional asymmetry, bureaucracy, political-economic interactions, and financial illusion and propriety rights. Silveira (1996, p.39) considers public choice an extension of the mainstream for the explanation of collective and public decisions.

In the models of institutional asymmetry, of which Downs (1957) is an example and more recently Pommerehne (1978), the growth of state expenditures would be induced by the behavior of the median voter. In the majority decision, the value of expenditure would not correspond to modal value, but it would correspond to the median of various levels of wanted expenditure by the voters, because the aggregation of the individual demand of the voters for public goods would make the median voter prevail. Thus, in democracies, the allocation of public expenditures would be explained by the performance of politicians and voters, and pressure groups that represent the wishes of the median voter. The personal preference groups would end up prevailing to determine the quantity of public goods to be supplied by the government and the financing of the growing expenditures by imposition of progressive and/or proportional taxes. As the median voter demands a great quantity of public goods and benefits himself paying only a part of the price of the consumed goods, ends up forming a coalition in favor of making expenditures.

In the current of bureaucracy, the action of public power is explained, among other factors, by the existence of public workers who make corporate claims and seek to elect politicians engaged in raising public wages and expanding the governmental role, as pointed out by Marlow & Orzechowsky (1996) and Borcherding, Bush and Spann (1977). Besides that, according to Buchanan (1967), for whom the policy is viewed as a change. Politicians, to elect themselves, commit to increase state expenditures and, in this way, obtain votes from the voters benefited in this way. Thus, the growing participation of the state in the economy rises ensuing from the interest of a portion of society represented by pressure groups, as in this particular case of public workers. Bureaucracy then becomes synonymous with inefficiency and corruption. When the society requires patents and visas from the government, there arises someone disposed to sell them, and if the government contracts many private enterprise to do big jobs, there are always firms with special privileges. At the same time, as the governmental arbitrariness gives origin to bribes, bureaucracy shows itself incapable of solving the economic problems satisfactorily.

In this situation, the payment of public worker wages would take a fundamental role in the explanation of public deficits and in the inefficiency of the public sector, since the expenditure with labor has expressive continual growth and business becomes unprofitable when salary increases overtake a determined level. Alesina & Perotti (1996) believe that a fiscal adjustment with a reduction in employment and decreases of real salaries produces more permanent effects than the other ways because it directly acts on the two budgetary items that have the greatest tendency for automatic growth: salary and employment.

In the models of policy-economic interaction, as in Pissarides (1982) for example, the government intervenes with the objective of achieving a rate of popularity that allows themselves to perpetuate in power. Politicians believe that the index of popularity grows with the fall in the level of unemployment, stability of prices and the increase of available income.

Thus, the fiscal policy and the publicity of governmental works would be utilized as instruments of political action of the government. In election periods, the popularity rate of the government determines the intensity of use of the instruments that it disposes, which are, expenditures with goods and services, income transference and taxation. The popularity level ensues from the results obtained through the social-economic policy of the government, formed through inflation, unemployment and income growth. The pro-electoral actions of the conservative governments were as bad as the progressive ones were in the sense of an increase in public expenditures. The former with the effect of lowering taxes without reducing expenditures and the latter increasing public expenditure and sometimes, also taxes. The consequence for the next government will always be an elevation in public expenditure because even conservative politics will be obliged to increase the level of taxation again to face the increase in public debt.

According to the academic financial illusion stream, which had its works initially developed by Pluaviani in the last century, public expenditure would grow because the agents have a perception of benefits bigger than the cost paid in taxes. This happens because tax collection is associated with favorable occurrences and the relationship between public expenditure and fiscal resources is inaccurate.

In the model of property rights of Coase (1960), the growth of state expenditure would be explained by the application of an excessively wide conception of public goods. For Coase, there are no intrinsically public goods, what exists are goods whose social costs are smaller than private costs, which represents a reaction to the theory of Collective Goods. This theory rises from the necessity to conceptualize public goods with internal characteristics: those whose consumers can not be discriminated against, whose consumption can not excluded by nonpayment.

As many of the goods produced by the government are divisible and the consumers can be distinguished - social insurance, teaching, health, among others, that are responsible by the largest portion of public expenditure-, the model of property rights concludes that there are private goods produced by the public sector that are not collective. The conditions so that external economies can be internalized without state intervention would be the reduction of private costs and the private management of undertakings that, although traditionally many of them have been under governmental responsibility, produce goods that can be considered private. An example of a good essentially considered public and that was originally a private good is the lighthouse. The privatization of lighthouses could be made by charging for its use.

This concept of public goods generates convincing arguments for the private sector to begin producing goods and services that were before considered of public domain and now some authors advocate that, in the Propriety Rights model, those goods should be privatized to impede public expenditure from increasing. In other terms, the change in concept of public goods generates conditions for reducing the role of the state in the economy. If there do not exist intrinsically public goods, the government should avoid increasing state expenditures and transfer to private initiative the expenditures with infrastructure, health and education - obviously those that had larger participation in the state expenditure over the last 50 years.

In respect to the theoretical prescription for state intervention, therefore, the conclusions of the Public Choice School give support to the affirmation that the increase of state intervention in the economy implies loss of competitiveness due to a concession in the increase of salaries for the public sector above productivity, with the consequence of the reduction of the rate of economic growth and an increase in the public deficit. Hence, the prognostic of mainstream theory refers to a transference of state activity to private initiative and measures of contention for wage increases.

1.3.2. The (in) efficiency of state enterprises

A traditional argument of the Public Choice School theorists in favor of privatization points out an inefficiency in State-owned enterprises due to worker stability and bureaucrats seeking to maximize their salaries, power and size of their departments in detriment to profit, as considered by Zweifel & Zaborowski (1996). The stability of the workers could discourage increases in productivity because, as they have secure employment, the workers would not make efforts to improve their performance, but would work only for personal benefit. It would be a situation where the enterprises do not work for their principal shareholder, the National Treasury, but for their workers: the state bourgeoisie. For Shapiro and Willig (1990), the inefficiency of state enterprises can ensue not from propriety in itself, but from the fact that their managers, many times chosen for political reasons, not necessarily to execute the objectives of the enterprises, but from personal objectives or from the objective of those who indicated them for office.

While in the weberian conception, the bureaucracy was a kind of organization with appropriate means for its wished objectives, to reach maxim efficiency, for the authors of the Public Choice School, bureaucracy is responsible for the increase in expenditures due to inefficiency caused by superproduction and slackening of the production controls, successive increases in the budgets, a consequence of pressure groups that always ask for more than they need to not have the risk of having less than they had wished for. As mentioned previously, these corporate worker actions help elect candidates engaged in the expansion of expenditures.

However, in a provocative paper, Klitgaard (1989) affirms that the governments sin because of "incentive myopia", a term utilized to describe the lack of governmental vision that seeks to reduce public deficit with wage cuts. According to Heller & Tait (1984): “Governments in these countries have generally been reluctant to shed labor, given relatively high unemployment rates and poorly developed social safety nets. Under these circumstances, a real reduction in government salaries is among the common austerity measures taken”.

Heller & Tait (1984) also assert that the relationship between public and private wages is less in the undeveloped countries than the developed ones. In other terms, in the countries where the private wage is regarded as bigger than the public one, the disequilibrium is larger. Haque and Sahay (1996, p.7) agree that this result is considered surprising and put in check the proposition that the public sector is principally responsible for fiscal crisis: “since one would expect that in developing countries, on average, the quality of human capital would be higher in the government relative to the underdeveloped private sector”. Besides that, they recognize that, in many situations, that with the fall of public salary there is a reduction of efficiency in the public sector, while the elevation of public wages attracts very skilled professionals. Besides the wage and employment levels in the public sector, there is a factor that is frequently pointed out as the cause of inefficiency, inclusively by the managers of public enterprises: the excess of norms that are submitted by different departments, that make the administration heavy. The prevailing aversion to risk in bureaucracy creates many routines, with many department chiefs asking for unnecessary technical studies, which turns simple operation into complex ones. The contracting, dismissal and acquisition, among other operations, requires lingering routine. The impossibility of public enterprise bankruptcy, according to Kornai (1979) also discourages the administrators for looking for profits because, even when the government incurs successive losses, the enterprises could receive resources from the National Treasury. In this way, the State helps the working of inefficient enterprises with public resources. Corroborating this empirical observation, Grossman (1988), among other authors, gives support to the privatization thesis arguing that private administration of enterprises produces larger profits than public ones and that the degree of economic efficiency is lower when State intervention increases in the economy. Davies (1959) also made a study comparing the efficiency of private and public enterprises concluding that the efficiency of the private enterprises is greater, which according to Husain & Sahay (1992) could be explained by the fact that private enterprises answer more rapidly to market signals.

On the other side, the works of Meyer (1975) and Neuberg (1997) point out that State-owned firms would be more efficient in the electric sector. Although, for Vickers & Yarrow (1995), in failed markets, the substitution of public enterprises by private ones does not necessarily increases efficiency. And, still, Cavalcanti (1991) who studied the performance of private and public enterprises in sanitation activities in Great Britain and concluded that the fact of the propriety being private or public is not relevant in the determination of efficiency in this sector. This proposition is corroborated by the works of Tyler (1978), Yoder, Borkholder and Friedèn (1991), for who the public and private enterprises present equivalent levels of efficiency.

In Brazil, this conclusion is shared by Simonsen (1995, p.13) for who the public firm is less efficient: The State is (...) completely dispensable as a supplier of private goods, where its action is much less efficient than competitive markets. Also for Landau (1985) who affirms that the source of inefficiency of the economy is public propriety, with its base in econometric study in which he concluded there exists an inverse relationship between State participation in economy and productivity.

From the point of view of the government, privatization would be justified both by the reduction of governmental expenditure and consequently, of the public deficit, and because the increase of efficiency tends to induce an increase in collection. It is already in this aspect that one justifies privatization, since the government could have the benefits of an increase in privatized enterprises through a large collection of tax revenue due to the greater profitability of enterprises, see (Hemming & Mansoor (1996) and Passos (1984).

Besides this, the collection of tax revenue can be even larger and the objectives of economic policy of the government more easily reached if the increment of efficiency of the enterprises reflects in the increase in efficiency of the economy of the country. Studies of the World Bank (1989) and of the International Financial Corporation-IFC (1995) point out that the economic benefits of privatization are maximized when governments make the increase in efficiency their principal objective. For Krueger (1981) and Balassa (1981), the fact that the Asiatic Tigers have presented GDP growth rates superior to the other developing countries is explained by different levels of efficiency, greater in the countries where there was more submission of the enterprises to the forces of the market. To practice a policy of commercial openness, the Asiatic countries would have submitted their enterprises to external competition, beginning to produce what interested the world and only competitive products, while in the other developing countries, the enterprises survive thanks to projectionist measures that assure the market monopoly.

Despite that, some authors, as for example Tyler (1978), affirm that there is no difference between the efficiency levels of private and state-owned enterprises. Vickres & Yarrow (1995) also affirm that, in oligopoly sectors, private enterprises are not more efficient than public ones because efficiency depends on how the enterprise is managed, activity specificity and where the economic environment is inserted, which can vary across countries. Thus, even in the theoretical framework of the microeconomy, it is possible that public undertakings be more productive than the private ones in many situations:"(...) it is perfectly possible to argue within an orthodox microeconomics framework that in many contexts (of which natural monopoly conditions framework are the most obvious example) public management will do better in terms of economic efficiency than private management." (introduction 1) The authors cite the case in which the straightforward menace of British Steel privatization made the enterprise achieve expressive gains in productivity. Walters (1992) also cites the example of the Jaguar enterprise that, with budgetary restrictions that anticipated privatization, reached an improvement of 150% in its performance regarding to its performance in 1979. Bishop and Kay (1988), analyzing privatization in England, concluded that the largest increase in performance occurred in industries that were not privatized.

Still according to Beesley & Littlechild (1983) and Vickres (1995), although the state-owned enterprises do not tend to explore the degree of monopoly, which reduces the practiced prices, the lack of preoccupation with the maximization of profit can create a carelessness with minimization of costs and the society pays the additional costs. In the private sector, on the contrary, even when there are tacit agreements among enterprises, the possibility of expansion among competitors makes the periodical occurrence of aggressive disputes in the markets possible**.** Thus, the privatization contributes to improve industrial performance due to the action of market forces when this is brought about by the breaking of monopolies, which results in industrial reorganization. In this respect Abreu & Werneck (1993) are categorical: "It is well known that competition induces efficiency. Under the pressure of competition, firms are compelled to push their costs down as much as possible and to shift to the consumer of their products the benefits of cost reduction".

In other words, as in productive sectors[4], governments reduce population living costs by charging cheap prices, one tends to associate inefficiency of public enterprises with their proprietors. The absence of competition would also be a cause of inefficiency of the state-owned firms, besides the impossibility of bankruptcy - soft budget, multiplicity of objectives and an excess of controls on the supervised enterprises to avoid fraud. Thus, one can affirm that the relationship between public/private propriety and efficiency is not conclusive.

For Pinheiro (1996,p.32), privatization can result in an increase in industrial efficiency since it has determined criteria:" For the effect of privatization on efficiency to be maximum, however, it is fundamental to combine the sale of enterprises with commercial liberation, measures to stimulate competition and guaranties to end the financing by the National Treasury of badly administered enterprises. Where competition is possible, it should be stimulated. Where its role is limited for technological reasons or market size, it is important to establish an efficient regulation mechanism.

The proposition that the less the degree of monopoly that the enterprise is submitted to, the more efficient it will be has been put in check by various authors. For Schumpeter

[4] The productive state universe is composed, almost always, by monopoly and oligopoly enterprises, which principally perform in the basic sectors, services and transportation.

(1950) and Hayeck (1950), models of perfect competition do not explain productivity and dynamic efficiency very well. According to Schumpeter (1950, p.114), even if there is not competition, the dynamism of the economy ensues from intense competition among the oligopolies, that make expressive expenditures with research and development become responsible for the technological innovations that reduce costs and increase productivity.

This proposition became known as the schumpeterian hypothesis: “A market structure involving large firms with a considerable degree of market power is the price that society must pay for rapid technological advance. Thus there is a trade-off between static efficiency, in the sense of prices close to marginal production cost, and dynamic progressiveness”. In this respect, Vickres (1995) explains Schumpeter's position about the concept of competition: (...) competition to innovate is the major source of gains in productive efficiency over time.(p.1)”

The proposition of competition via technology in Schumpeter's terms seems to have been substituted by almost unanimous thinking that competition occurs only through prices, justifying the recommendation that privatization only results in fiscal gains when implemented with reduction in the degree of monopoly for newly privatized enterprises. Although, there are cases in which enterprises utilize technological innovation as a competition strategy, where success would contribute to the increase in the size of the enterprise and in its monopoly degree. Thus, in the short-period there would be a trade-off between price and technological innovation, but in the long term, the consumers would be benefited by a fall in prices due to the firms' expenditures with research and technology. But if neither the fact of government being the owner of the enterprises nor the degree of monopoly explain the inefficiency in the public sector, there is no sense in orienting the privatization process to reduce the degree of monopoly of enterprises that passed to private administration as well as of the enterprises that continue being managed by the government. One should seek mechanisms to make the public and private enterprises efficient.

However, the recommendation of economic policy is another if one accepts the proposition of Baumol, Panzar & Willig (1982), for who the break in monopolistic power with the withdraw of the entrance barriers, permits the free entrance of firm and efficient production without economic profit, with reduced prices, counteracting the schumpeterian hypothesis.

In the developing countries, the lack of resources to increase the offer of goods and services and their modernization has created pressure for privatization. Besides that, the patrimony of the enterprises has been viewed as a resource for payment of governmental debt, allowing the resolution of the distortions generated by interventionist model.

In this respect, one can consider the observation of Meggison, Nash and Randeborgh (1994) that the privatization programs are supported by theoretical precepts and fragile empirical evidence: “What we find most surprising about the privatization programs of the 1980s, however, is not their size or scope but the fact that they were adopted largely on faith. The academic literature available at the time these decisions were made offered precious little guidance as to the best method of divesting state-owned assets and only limited theoretical analysis of the predictable costs and benefits of privatization. Furthermore, while the extant literature on the performance of SOEs [state-owned enterprises] was voluminous, the few empirical analyses of privatization itself that had been published were far from conclusive. While authors such as Bailey (1986), Bishop and Kay (1988), and Pryke (1982) present arguments or evidence favoring privatization’s role in promoting economic efficiency, the exact opposite view is put forward by Kay and Thompson (1986) and Wortzel and Wortzel (1989).(p.404)

1.3.3 The technological change

For a long time, some sectors, such as telecommunications, railroads and other public utilities were considered natural monopolies. These sectors were characterized by, at least one of the following aspects: necessity of large volume of capital, presence of scale economy and externality. These sectors had decreased returns because they presented high fixed costs that, to be profitable undertakings, would require a great volume of production to reduce total average costs.

These peculiarities made the enterprises that performed in these markets as if they were public ones or as if they acted under agency supervision. However, the effects that tend to increase market concentration can be offset by other actions, as pointed out by Arthur (1996). According to the author, the market reserve that enterprises have can be reduced by the introduction of new products by competitors. Besides that, the reduction in communication costs and the Internet would be reducing barriers to entrance since those elements reduce marketing and promotion costs that are important sales instruments. Another aspect that would reduce the barriers to entrance would be the fact that new technologies are more efficient than the old ones.

Also for Friedman (1984), the technical conditions that resulted in monopoly changed over time since, due to the creation of substitute goods or the reduction in the indivisibility degree of the products, some goods, that were produced by the public sector before, passed to be produced by the private sector. Thus, new products were created in communications, that before were only explored by monopolies, and started to be produced by diverse competitive firms. The services of mobile telephony, local and long distance started to be produced by different enterprises that can, inclusively, compete among themselves. American Telephone and Telegraph - AT&T was divided into many firms and many public enterprises in the same field were privatized. Hence, the American tariffs are the lowest in the world.

By the exposed, one can conclude that the technological changes, upon introducing alterations in the forms of production and the organization of the production process, increased interest in the privatization process because it fragmented activity, lowering the amount of necessary resources for investment.

1.3.4. The new role attributed to the State

"If the State is strong, it will smash us, if it is weak, it will put us in danger".

Paul Valery, apud Tanzi (1997)

The theory of the Public Choice School recuperates the classic principles, already present in Adam Smith (1937), that the market is a system which allocates resources and works independently of the wishes of a particular individual. The governmental actions could not bring equilibrium to the market, but those actions could only muddle its functioning. From the prognostic of neutral monetary policy, present in Ricardo (1821), Friedman (1984) and Lucas & Sargent (1981), one understands that economic policy can only temporally deviate product and employment from their equilibrium position, which would converge to the natural unemployment rate anyway.

The argumentation of Friedmand and of Lucas is centered in Philips' curve, where the authors show that in the long term, the economy comes back to its natural trajectory.

The belief in the inoperative state is according to the concept of *Leviatã* that Hobbes employed to define the State, this view of the state has also given support to governmental programs that attribute new roles to the stat: "The private sector will be the engine of growth in Guyana ... The Government will continue its reform of the public sector to reflect the changing role of the state under a market-oriented development strategy." Government of Guyana 1994, p.4."The Government is committed to implementing a Medium-Term

Economic Strategy that (...) provides an enabling environment for private sector development (...) [and] rationalizes public sector management. " Government of Belize 1994, p.5."The Government recognizes that private sector development is the mechanism through which Jamaica will move from stabilization to export-led growth. The public sector therefore must assume a new role. It must create an environment in which the private sector can operate efficiently". Government of Jamaica 1994, p. 9.

According to Williamson (1993) and to the World Bank (1997), adoption of measures such as reduction of governmental intervention in the economy, openness of the economy to external markets and financial liberalization could increase the growth of developing countries. For the World Bank, this set of measures is consistent with full employment and self-sustained growth and it has been employed with success by many countries.

Adoption of orthodox measures and of privatization was implemented even by leftist politicians such as Tony Blair, Mitterrand, Felipe Gonzalez and Carlos Menen, policy-makers of socialist formation. For these policy-makers, the State should not act in the traditional sector since it is not a strategic one for development anymore because liberal economic policy improves economic performance of the countries**.** Now, one has a new economic situation. If before strong governmental action was viewed as a factor that promoted economic growth, currently, these actions have been seen as a promoter of underdevelopment. Pinheiro and Giambiagi (1992,p.243) recognized this governmental role change: "The State is now the problem, not the solution anymore". The actions of theses policy-makers are foreseen in the insights of the Public Choice School. The results from that School gained importance with the end of socialism in East Europe as Buchanan (1993, p.67) recognized: "Public Choice (...) grew to maturity more or less in parallel with the decline of the Marxian-socialist-collectivist ideal for the organization of socio-political-economic interaction". Although, for Pereira (1997, p.17) this fact occurred because the state intervention was badly conducted. Another example of change in the conduction of economic policy is the European Monetary Union-EMU following the principles of mainstream theory. The French socialist party, although, has reacted to this change in economic policy, without however presenting alternative innovative proposals in this area. Thus, the privatization policies have been adopted by both industrialized and developing countries to modify the state role, the private sector and the relationship between them, as described by Schimidt (1996,p.569): "more 80 countries have launched ambitious efforts to privatize most of their state-owned enterprises - SOEs, a process which is far from being completed."

Although, Lacerda (1987, p.287) seems to doubt that the present movement is definitive: "the purpose and meaning [of privatization] has been taken, generally, in a very narrow sense.(...) we can ask at this point, a fundamental question: will this alternative be sufficient to define a new strategy of the public arenas in the new moment of the economy?"

Although, the proper World Bank recognized that some countries either do not privatize nor promote commercial openness because, in the short-period, the costs can be larger than the benefits. That is, with commercial openness, the production in the tradable sector could be substituted by the importation of products, which together with layoffs due to privatization, reduced the employment level.

Even though the World Bank and the authors from the Public Choice School pointed out diverse sources of state inefficiency, there are authors who have argued that the State has a role to perform in the economy and that its expenditures should not be minimized. Keynes (1970) and, more recently authors such as Przeworsky (1996) affirm that the market does not allocate the resources efficiently. So, for these authors, state intervention is needed to promote economic growth.

For Pereira (1997, p.20), the present crisis is not explained by effective inefficiency demand, but by inadequate state action: "The insufficient demand, correctly presented by Keynes as an explanation for the crisis in the 30's, does not apply to the current one (...) the basic cause of economic crisis is the state crisis". Beyond that, Reis (1993) even recommends the social-democracy as a model for government.

In this respect, Moreira (1995) Pereira (1997) suggest a state interventionist to correct market and product failures. The authors present the success of countries from the Asiatic South-East, as a successful example of conjunct action between government and the private sector. According to Tigre (1985) and Erber (1983), the performance of weapon and computer industries corroborated the proposition of state intervention to produce technological innovation because it could carry the country to be among the advanced industrialized countries. However, this insight is denied by Link (1977) for who there is no relationship between industrial development and governmental expenditure with research and development of products.

The OCDE (1997) presents a possible explanation for the above inconclusive debate: the purchase of technology has a greater impact on the growth of productivity than direct expenditures on research and development. Thus, according to OCDE's report, although the USA and Japan have presented very similar percentages in technological expenditures, modernization should have been greater in Japan, where the enterprises acquired a larger volume of equipment and incorporated the latest generation technology. Therefore, investing in research to create technology would not be enough because technological assimilation is also important. The country that could impede the entrance of imported technology to favor the creation of its own technology would not present the hoped for results in terms of modernization. This aspect does not invalidate the governmental efforts of encouraging technological innovation, in other terms, there is a saying that affirms this: "Construct a better mousetrap and the world will open a path to your door", *apud* OCDE (1997).

However, for Tanzi (1997) the participation of the state has increased in percent terms of GDP in the majority of the industrialized countries as the figures attest to in the Yearbook (1991 and 1995) and OCDE (1995). In the last 20 years, the dominant tendency in these countries was to increase public expenditures, tax burden, fiscal deficits, governmental indebtedness and participation of public employment in the total employment. According to Tanzi & Schuknecht (1995) the state expenditure in GDP grew from 9% during War World II to 43% in 1980. Thus, for these authors the industrialized countries would be liberal in discourse, but, in practice, would be highly interventionists.

For some economists, as Nogueira Batista (1994) for example, the liberal proposition and the end of state intervention, measures from the "Washington Consensus" would only be defended for the developing countries. Theses authors point out the fact that public expenditure has grown since the 80's and privatization takes place only in the third world countries. For Nogueira Batista (1994) this prognostic would be made with the intention of discouraging the growth from these countries. The publication from "The Economist" that the privatization process in France and in Italy are slowly evolving reinforce their arguments [Jan. 18th, 1997,p.72 and Feb 1st 1997,p.53]. One insight that could be utilized in this sense is the declaration of the Secretariat of the American National Treasury[5], asking for less fiscal discipline in the European Union-EU. According to him, the

[5] See Financial Times de 03/03/97.

achievement of Maastrich's criteria would prolong the European stagnation and undermine the global economy.

However, the percentage expenditure/GDP is a less appropriate proxy of the level of intervention because it would indicate, for example, that there is more state intervention in Sweden than in China. Besides that, Europe started to privatize its enterprises before other regions and the European Union has more fiscal discipline now than in the past due to restrictive rules of budgetary expenditure. With effect, state participation in the economy has been reduced. Although, it is not commendable that one substitute the vision that the state can solve all problems by the vision that state action is a problem. According to Stiglitz (1989), for who the new challenge is to find what the form of state intervention should be because, for him, there are still state governmental roles. Following the privatization process would permit the state to increase expenditures with research and development, education and health in substitution for payment of wages and subsidies.

The debate about the state role in the economy remains inconclusive. Schimidt (1996), inclusively recognizes the existence of a trade-off between the benefits of privatization and state intervention**:** “Comparing the expected payoffs of the government under privatization is clear. On the one hand production is carried out more efficiently (higher productive efficiency) under privatization because the information rent induces the manager to work harder.(...) On the other hand, asymmetric information causes a distortion of the production level (lower allocative efficiency) under privatization.” (p.578). “The trade-off between higher productive and lower allocative efficiency under privatization seems to be plausible and consistent with the empirical evidence.”(p.578). “The main drawback of this model (and also of Shapiro and Willig (1990)) is that the different information structures under privatization and nationalization are imposed by assumption.”(p.579)

2. CONCLUSION

This work treated a change in the role of the state economy, presenting the arguments that compel the increase in state intervention and, afterward, its diminution. From the financial governmental point of view, privatization would be justified by a reduction of governmental expenditures, by an increase of economic efficiency and technological evolution that make action in these markets advantageous for the private sector.

Governmental intervention was justified by the success of the keynesian economy in removing the American economy from crisis and promoting economic recuperation, as it was pointed out by the academic mainstream in the epoch.

The change in the concept of state intervention, since the start of the 70's, has been due to the growth of the public deficit in various countries and to the failure of the keynesian prognostic in altering the natural trajectory of the economy, which would only have resulted in greater indebtedness and inflation levels.

The authors from the Public Choice School pointed out the reasons to explain why the government insists in making expenditures larger although they were considered innocuous in the long term. According to these authors, there exist a coalition in favor of expenditure, which would be present in various segments of the society.

One discusses the causes of (in)efficiency of state enterprises and their roles in economic development. Factors of less efficient state-owned enterprises were pointed out: employee stability, bureaucrats seeking to maximize their salaries and power and size of their departments in detriment to profit. Although for some authors, the public wage is not either the cause of inefficiency nor of public deficit because the relationship between public and private is less in the underdeveloped countries than in the developed ones. In other terms, this relationship is less in the countries where the fiscal situation is most unbalanced.

One also sought, in this paper, to confront the mainstream proposition that the reduction of monopolistic power of privatized enterprises can increase the efficiency with the (forgotten) schumpeterian statement that competition occurs through technological innovation. While for mainstream theory the breaking of monopolies results in the fall of prices, that one understand as an increase in efficiency, for Schumpeter, competition can take place either through prices or technological innovation, that would mainly produce lower costs and prices.

It would be important to emphasize that if neither the fact of government being the owner of the enterprises nor the degree of monopoly explain the inefficiency in the public sector, there is no sense in orienting the privatization process to reduce the degree of enterprise monopoly that passed to private administration as well as of the enterprises that continue being managed by the government. One should seek mechanisms to make both the public and private enterprises efficient.

However, the economic political recommendation is adequate if one accepts the insight of Baumol, Panzar and Willig (1982), for who the breaking of monopolistic power with the removal of entrance barriers permits the free entrance of firms and efficient production without economic profit, with lower prices, denying the schumpeterian hypothesis.

Although, even though the state should reduce its role as entrepreneur, it has a responsibility to encourage economic development. The state needs to change as private enterprises constantly do. The new challenge becomes whether the government should or should not intervene, but find the form of its action, as pointed out by G. J. Stigler. The government can identify the market failures to promote development without protectionism and laissez-faire.

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