



Is Privatization Used Appropriately for Its Purpose? A Socioeconomic Point of View

Abdullah Murat Tuncer

Department of Political Science, Conley American University, Honolulu, USA

Email: muratatuncer@gmail.com

How to cite this paper: Tuncer, A.M. (2022) Is Privatization Used Appropriately for Its Purpose? A Socioeconomic Point of View. *Open Access Library Journal*, 9: e8492. <https://doi.org/10.4236/oalib.1108492>

Received: February 15, 2022

Accepted: March 20, 2022

Published: March 23, 2022

Copyright © 2022 by author(s) and Open Access Library Inc.

This work is licensed under the Creative Commons Attribution International License (CC BY 4.0).

<http://creativecommons.org/licenses/by/4.0/>



Open Access

Abstract

In summary, we can call the change that allows the use of public resources by the private sector “privatization”. To achieve higher production efficiency, leading to faster economic growth and development, strengthening the role of the private sector in job creation, improving the public sector’s financial health, and providing free resources for use in sectors important to the public, such as education, security, health, housing, transportation, and other infrastructure development initiatives are the main objectives of privatization. With globalization, privatization has become much more widely used. However, in privatizations, the primary goals are gradually shifting to the secondary, with most privatizations aiming to close the public finance deficit. Privatizations made with the aim of closing the deficit and paying debts may provide a temporary and false state of well-being. The transfer of institutions, which have been acquired over the years with public resources, which have a historical background and sociological importance for countries, to the private sector through careless and inappropriate privatizations causes serious losses for societies in the long term. The privatizations that accelerated in our country in 1980s were mostly carried out to close the public finance deficit, and at this point, the debts increased, even more, efficient institutions were lost, and public losses emerged. Most of the projects carried out under public-private partnerships, which should be considered a form of privatization, have cost the public much more than their real values. As a result, when the privatizations were viewed broadly, the total cost to the public was greater than the profit.

Subject Areas

Social Policies, Sociology

Keywords

Privatization, Socioeconomic View, Risks of Privatizations, Social Policy, Politics

1. Introduction

Developing important projects and discoveries requires personal motivation and competition. The public sector can provide investment and competition through privatization, which it cannot do within itself. The private sector can be an organization or can be made up of individuals.

Privatization is the sale or use of public assets by private institutions and individuals for a certain period or with no time limit. Privatization refers to any shift in activity from the public to the private sector (Priest GL 1988) [1]. Public-private partnerships should also be considered a kind of privatization. Privatization of any factory can be done to a company or capital owner, as well as to workers working in that factory, with the goal of distributing income more equitably to the public [2]. Projects with public-private partnerships carry many of the same risks of corruption as other tender processes, but in such projects, the risk increases due to the complexity of the transaction and the size of the return. Poorly constructed contracts, the effects of politicians, inadequate supervision, and clientelism are the main causes of high risks and corruption [3]. The advantages of privatization are improved performance, better customer service, and improved management. Privatization has both advantages and disadvantages at the same time. Issues of regulating monopolies suggest that the profit motive should not be the primary objective for industries that perform an important public service, such as health care, education, and public transport. The major disadvantage of the procedures is that they decrease accountability and lead to unassured success.

Block sales, asset sales, and public offerings are the main modes of privatization in Turkey (Öniş 1991) [4].

Although privatization is a method imposed by the neoliberal economic policies brought about by globalization, privatization should aim at spreading the level of welfare to the public (Gupta 1999) [5].

Unfortunately, there are very few examples of privatization in the world that can increase the income level of the broad masses and benefit the public in the long run.

2. The Goal of Privatization

The basic stated objectives of privatization can be; to increase efficiency and reduce the size of the public sector, to reduce public debt and deficit, and to obtain funds; and to strengthen the stock markets.

The advantages of privatization can be summarized as follows (van Brabant, 1992) [6]:

- 1) To generate financial resources for the government for the new investment areas.
- 2) If the public sector fails in optimal use, the private sector can do this.
- 3) Monopoly results in inefficiency and losses. The private sector creates fostering competition.

- 4) Privatization can reduce the fiscal burden.
 - 5) Reducing bureaucracy can be more effective for business.
 - 6) Political interference can be reduced by privatization benefits by depending on democratic institutions.
 - 7) These advantages increase productivity.
 - 8) Costs can be cut.
 - 9) Motivation can increase.
- But also, privatization has some disadvantages and side effects;
- a) Price could not be accepted by the public.
 - b) Employees can lose their jobs and the suicide rate can increase (King 2009) [7].

c) Problems with finance. It has been observed that many private sector units make huge losses.

- d) Improper working.
- e) Excessive regulation and control of the private sector by the government and by politicians.
- f) There could be different types of corruption.
- g) Occupational and worker health and safety are mostly not matters of concern for the private sector. It adversely affects the industrial environment.
- h) Privatization is not a guarantee of success.
- i) Privatization could be harmful to the balance of economic development (Redmon 2003) [8].

Perhaps the most equitable way of investing in privatizations to ensure a fair distribution of income and for development is the sale of stocks.

But in countries where the capital market effect is strong and institutional structures are not developed, it can sometimes be difficult for the government to offer stocks to the public and for individual buyers to finance large purchases due to both insufficient finance and lack of transparency.

There is only a small proportion of companies that are efficient and show good profitability, many are insufficient. The cost of production is higher in large part because of the poor technology and poor management. Besides these, there could be other factors contributing to higher costs, such as the high cost of raw materials and components and the higher rate of indirect taxes.

In most examples, the private sector operates on the principle of maximization of monopoly profits. It is harmful to consumers and society.

3. Privatization and Politics

Privatization planning should be done with the contribution and acceptance of the public. Privatization despite the public is a characteristic of autocratic governments, the procedures are not transparent and clear (Biglaiser 2002 [9], Frantz 2018 [10], Levinsky 2010 [11]).

Some topics are important for the decision on which institutions to privatize.

It requires costly support, such as upgrading technology. The business is at a

loss, but there are opportunities to make a profit. Being an institution that the private sector can deal with, an area where it can find financial support.

However, privatization examples stand out as institutions that make a profit, attract attention, are difficult to establish except with the support of the government, and that the public needs their products. After privatization, mostly the private sector becomes more dependent on the government for import requirements, output sales, etc. (Aman 2001) [12].

In most privatizations, profitable, well-run, and powerful production centers and institutions are privatized. It is not easily understood by society why well-run organizations that make a profit are privatized. Such privatizations are of no use beyond closing the public financing gap. When the privatization of these already productive and profitable institutions is evaluated in the long term, it will inevitably cause a public loss.

It has been shown that there are significant psycho-social effects of privatization, and there is a relationship with suicide in different countries. It has been argued that death rates increased in Eastern Europe after the collapse of the Soviet Union and that the most important reason for this was privatization (King 2009) [7].

The privatization policies pushed the unemployed (especially male) workers, and this increased the suicides. It has been shown that the rate of suicide and death increased by 40 percent in countries such as Russia, Kazakhstan, and Latvia, where privatization practices were intense, especially in the 1990s.

4. Privatization in Turkey

The most typical example of this type of privatization in our country is the privatization of Turk Telekom (Turkish National Communication Company). The sale of 55 percent of Turk Telekom's shares to the Hariri family for 6.5 billion dollars in 2005, the sale of Telekom first came to the fore in 1993, when the Right Path Party (DYP) was in power. However, this sale of 40 billion dollars was blocked by the Constitutional Court. Years later, under the Justice and Development Party (AKP) rule, in 2005, this time the sale took place. When the Saudi-linked Lebanese Hariri family purchased 55% of Turk Telekom, it had no debt and \$2 billion in cash. After the privatization tender, the corporate tax was reduced from 30 percent to 20 percent. For this reason, they inflicted a huge tax loss on the state [13].

After the transition to the Hariri family (Oger Company), Turk Telekom earned a net profit of 14 billion USD between 2005 and 2015. By 2016, dividends of 12.6 billion USD were paid. The company got 7 billion USD of that. The company only paid the first payment of 1.4 billion dollars and the next 600 million installments of the privatization money and put a debt-free company in debt of 3.5 billion USD as of the end of 2016. At the end of the contract, the Company would return the network and equipment, making the company debt-free.

The company sought money abroad to pay the privatization fee but could not find it. Thereupon, Turkish banks lent Oger 4.75 billion USD.

In the end, the Company left Turkey, leaving billions of dollars in bad loans by deceiving both the state, the company he bought, and Turkish banks.

He dumped this debt on Turk Telekom and fled.

With the Company's declaration of bankruptcy in 2018, Telekom's shares fell from 12 billion to 3.3 billion USD. The state agency, the state budget, lost 8.7 billion USD.

We do not know whether the 4.7 billion US dollar loan he received from banks, and which has not been repaid is included in this debt [13].

I gave the Turk Telekom privatization story as the worst possible example of privatization above.

Other problematic examples of privatization are the privatization of electricity distribution and the privatization of sugar factories, an industry that was built on the foundation of Turkey [14]. The privatization works of electricity started in 1989 [15].

Turkey Electricity Distribution Company (TEDAŞ) was included in the privatization program with the decision of the Privatization High Council dated April 2, 2004, and numbered 2004/22... With the transfer of Toroslar Electric Company to the private sector on September 30, 2013, all TEDAŞ subsidiaries were privatized. Turkey's Electricity became private for 26 Years, 15.8 billion USD. TEDAŞ, which is affiliated with the Ministry of Energy and Natural Resources, will be subject to the provisions of private law. The capital of TEDAŞ is 3 billion USD and it is completely owned by the state. However, companies that receive privatized electricity distribution lack equity.

By 2022, the companies will buy 1 kW of electricity from the state for 4.2 cents and sell it for 19 cents (1.37 TL) [16] [17] [18].

As of January 2022, electricity has increased between 50% and 127%. However, the minimum wage salary increase remained below 50%. While the public lost in electricity, companies made a profit of 45 million USD. Moreover, the public undertakes the decreasing income due to the pandemic [19] [20] [21] [22].

The electricity that the state sells to distribution companies for 23.76 cents per kilowatt-hour is consumed by the citizen for 47.43 cents. In this way, the resources transferred to the distribution sector, which private companies serve, through citizens, reached 1.5 billion USD in 2020.

At this point, citizens who cannot tolerate having paid their electricity bills refuse to pay the bills by protesting. In the related industries, production slows down, layoffs occur, and social unrest is spreading rapidly.

Except for the Justice and Development Party, all political parties, workers working in sugar factories, and most of the population point out and oppose the inconvenience and impossibility of transferring the production of an important food such as sugar to the private sector. The social impact of the privatization of

sugar factories affects large masses, such as workers, farmers, and small tradesmen working in the sugar beet sector, which is the main source of income of the region. Since cuisine and consumption are among the most important nutrients, it affects the whole society.

The negative health effects of using sweeteners such as starch-based sugar (SBS) instead of sugar beet are very well known. Although the public trying to relieve the SBS production quota from 10 percent to 5 percent, data confirms that this is not sincere. This quota is less than 3% in developed countries.

On the other hand, despite the quota in production, it is observed that imports of SBS are increasing gradually. While 11 thousand tons of SBS were imported in 2011, this rate was 11.2 in 2012, 13.2 in 2013; 15.7 in 2014; 28.7 in 2015; In 2016, 57.1 tons of SBS were imported, twice as much as the previous year [23]. Its imports have increased fivefold in the last five years.

As a result of the mistakes made in privatization, a serious contradiction has emerged between the aim and the point reached and the trigger of a social problem has been pulled.

5. Summary of Social and Socio-Economic Effects of Privatization

1) The new monopoly of the private sector and its negative impact on competition.

2) Privatization has both negative and positive effects on employment rates, but most commonly negative.

3) Removal of workers within the framework of cost adjustments in privatized institutions.

4) Loss of the public due to the non-transparency of privatization.

5) The privatizations are made for financial reasons, causing public loss because of the use of internal financial resources instead of external finance.

6) It can lead to the concentration of finance in certain segments, leading to an increase in social segregation and increasing inequality (InthePublicInterest_InequalityReport_Sept2016) [24].

7) A profit-driven system doesn't mean we get more for our money. It means someone gets to make more money from us. Therefore, the main purpose of privatization should not be profit.

8) Risks of corruption increase due to the complexity of the transaction and the size of the return. Poorly constructed contracts, inadequate supervision, and clientelism are the main causes. Corruption destroys social trust and morale.

6. Conclusions

Privatization is not a panacea for the ills of the public sector. Privatization to create financial resources without realizing structural improvement will result in disappointment. If privatization cannot return to investment, it will not benefit the financial balance. The income from privatization will only work in countries

with a logically planned and stable investment system. Otherwise, the income obtained may cause much more serious financial deficits. Privatization with a borrowed budget will only result in the loss of public resources.

In privatization, transparent and publicly accountable tenders should be made, and information should be available from the public side.

In countries where the market functions poorly, enterprises are still vulnerable to arbitrary government edicts.

If the enterprise is still a monopoly after privatization, as is often the case with utilities, it must be subject to suitable controls, otherwise, inefficiencies and power will merely be transferred to the private sector, with the costs being borne by consumers or monopolistic exploitation by efficient private owners will replace the inefficiency of public ownership.

Privatization should only be done with the aim of investment in line with welfare state purposes, and efficiency should not be perceived as laying off workers.

In the young Republic period, which was established in 1923, the private sector was supported along with state-supported development. Beginning with the multi-party period in 1954, the private sector and liberal policies began to be given importance.

The main wave of privatization increased with the support of neoliberal policies since 1983, and the privatization approach, which was used very beneficially after 2003, turned into a source of corruption as of 2010 (Tecer 1992) [25].

There are some important lessons to be learned from bad practices (Ağirel 2019) [26]; 1) The tender should be transparent, and open and clear, 2) The required finance should come from international funds, not from the country's public sources, 3) The public should not be indebted with treasury guarantees for the future, 4) Privatization conditions should be studied very well, the income should be used for income justice, it should never lead to unemployment.

In countries where democratic institutions are weak and in countries ruled by modern tyranny, power will use privatizations for the continuation of its administration (Biglaiser 2002) [9].

The most important issue is that privatization in a country without democracy and a judiciary system working with universal law principles and without strong democratic institutions will result in a fiasco.

Conflicts of Interest

The author declares no conflicts of interest.

References

- [1] Priest, G.L. (1988) Introduction: The Aims of Privatization. *Yale Law and Policy Review*, 6, 1-5.
- [2] Martin, B. (1997) The Social and Employment Consequences of Privatization in Transition Economies: Evidence and Guidelines. Working Paper IPPRED-4, International Labour Organization, Geneva.

- <http://publicworld.org/files/ilotransition.pdf>
- [3] Sarıca, S. (2015) Kamu-özel ortaklıkları: Yolsuzluğun faunası. <https://tr.boell.org/tr/2015/05/28/kamu-ozel-ortakliklari-yolsuzlugun-faunasi>
- [4] Öniş, Z. (1991) The Evaluation of Privatization in Turkey; The Institutional Context of Public-Enterprise Reform. *International Journal of Middle East Studies*, **23**, 163-176. <https://doi.org/10.1017/S0020743800056026>
- [5] Gupta, S., Schiller, C. and Ma, H. (1999) Privatization, Social Impact, and Social Safety Net. Working Paper No. WP 99/68, International Monetary Fund, Washington DC, 1-27. <https://doi.org/10.5089/9781451848977.001>
- [6] van Brabant, J.M. (1992) On the Motives for and Goals of Privatization. *Privatizing Eastern Europe*, **26**, 148-174. Springer Nature Switzerland AG. https://doi.org/10.1007/978-94-011-2834-6_7
- [7] King, L. and Hamm, P.D. (2009) Rapid Large-Scale Privatization and Death Rates in Ex-Communist Countries: An Analysis of Stress-Related and Health System Mechanisms. *International Journal of Health Services*, **39**, 461-489. <https://doi.org/10.2190/HS.39.3.c>
- [8] Redmon, D. (2003). Privatization Is Suicide. *Consumers Commodities and Consumption*, **5**, 1.
- [9] Biglaiser, G. and Danis, M.A. (2002) Privatization and Democracy: The Effects of Regime Type in the Developing World. *Comparative Political Studies*, **35**, 83-102. <https://doi.org/10.1177/001041400203500107>
- [10] Frantz, E. (2018) Authoritarianism: What Everyone Needs to Know. Oxford University Press, New York. <https://doi.org/10.1093/wentk/9780190880194.001.0001>
- [11] Levinsky, S. and Way, L.A. (2010) Competitive Authoritarianism. Hybrid Regimes after the Cold War. Cambridge University Press, New York. <https://doi.org/10.1017/CBO9780511781353>
- [12] Aman Jr., A.C. (2001) Privatization and the Democracy Problem in Globalization: Making Markets More Accountable through Administrative Law. *Fordham Urban Law Journal*, **28**, 1477-1506.
- [13] Yazar, K. (2021, May 3) Türk Telekom'un satışını ve Hariri ailesini unutmadık, unutturmayacağız! <https://www.cumhuriyet.com.tr/haber/turk-telekomun-satisini-ve-hariri-ailesini-unutmadik-unutturmayacagiz-1833153>
- [14] <https://calismaortami.fisek.org.tr/icerik/ozellestirmeler-kamu-yarari-mi-sermaye-yarari-mi-seker-fabrikalarinin-kime-ne-zarari-var/>
- [15] Afaenerji.com (2021, February 22) Türkiye'De Elektrik Şirketlerinin Özelleştirme Süreçleri. <https://www.afaenerji.com/blog/2021/02/22/turkiyede-elektrik-sirketlerinin-ozellestirme-surecleri/>
- [16] [https://www.devletdestekli.com/devlete-elektrik-satmak-alim-fiyati/#gunes-enerjisi-elektrik-uretimi-maliyeti-2022](https://www.devletdestekli.com/devlete-elektrik-satmak-alim-fiyati/#gunes-enerjisi-elektrik-uretimi-malियeti-2022)
- [17] <https://www.malumatfurus.org/elektrik-dagitim-sirkerleri-elektrigi-kaca-aliyor/>
- [18] Benfitchim (2022, January 4) Elektrik Zammından Dağıtım Şirketleri Ne Kadar Kazanacak? <https://onedio.com/haber/elektrik-zammindan-dagitim-sirketleri-ne-kadar-kazanacak-1031825>
- [19] Uzmay, K.E. (2020, April 23) Türkiye'de elektriğin özelleştirilmesi: Soygundan kim kazanıyor?

- <https://haber.sol.org.tr/haber/turkiyede-elektirigin-ozelleştirilmesi-soygundan-kim-kazaniyor-1916>
- [20] Ocsk, H. (2022, January 19) Elektrikte fatura kabarık kamu zararda: Şirketler tek kuruş vermiyor.
<https://www.gazeteduvar.com.tr/elektrikte-fatura-kabarik-kamu-zararda-sirketler-tek-kurus-vermiyor-haber-1549832>
- [21] Cumhuriyet (2021, September 18) The Resources Transferred from the Public to Electricity Distribution Companies Reached 10 Billion TL.
<https://www.cumhuriyet.com.tr/turkiye/elektrik-dagitim-sirketlerine-kamudan-aktarilan-kaynak-10-milyar-tlyi-buldu-1869848>
- [22] Independent Turkey (2021, April 21) Salgında zarar eden elektrik şirketlerine ödenecek yardım faturalara yansıtılacak.
<https://www.indyrturk.com/node/348181/ekonomi%CC%87/salg%C4%B1nda-zarar-eden-elektrik-%C5%9Firketlerine-%C3%B6denecek-yard%C4%B1m-faturalara>
- [23] Şimşek, H. (2018, March 22) Kota düşürme göz boyama NBS ithalatla zehirleyecek.
<https://www.birgun.net/haber/kota-dusurme-goz-boyama-nbs-ithalatla-zehirecek-208969>
- [24] https://www.inthepublicinterest.org/wp-content/uploads/InThePublicInterest_InequalityReport_Sept2016.pdf
- [25] Tecer, M. (1992) Privatization in Turkey. *Cahiers d'Études sur la Méditerranée Orientale et le monde Turco-Iranien*, **14**, 133-146.
<https://doi.org/10.3406/cemot.1992.1025>
- [26] Ağirel, M. (2019) Şaki. İnkılap Kitabevi Yayın San. ve Tic. AŞ. İstanbul.