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BEYOND *BUREAUCRATS IN BUSINESS*: A CRITICAL REVIEW OF THE WORLD BANK APPROACH TO PRIVATIZATION AND PUBLIC SECTOR REFORM[1]

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Abstract: This paper provides a critical review of the World Bank Policy Research Report, *Bureaucrats in Business*, commenting on its position relative to the previous reports in the series and on the new privatization synthesis — the theoretical basis underlying the Bank's approach. The detailed critique focusses on three main areas of the Report: the narrow analytical framework which inevitably supports pre-determined conclusions; the selective and biased use of evidence which ignores possible alternative interpretations — particularly the influence of country-specific factors; and the narrow view of industrial policy which leads to inappropriate policy prescriptions.

1 INTRODUCTION

Although privatization has been adopted in many developing countries, implementation in Africa remains relatively sluggish and, it seemed in the late 1980s, its popularity was waning (Fontaine and Geronimi, 1995). Recently, however, the pressure to privatize seems to have gathered strength with international donors and developing country governments, with both pushing for an increase in the pace of privatization, although the approach now is a little more pragmatic. This renewed enthusiasm is manifested in the 1995 Report *Bureaucrats in Business* (hereafter referred to as the Report) issued by the World Bank (hereafter referred to as the Bank).

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The Report was the subject of a recent 'Policy Arena' in this Journal.[2] This article contributes to the critical literature, highlighting that many relevant factors are omitted from the Bank's approach, the neglect of which accounts, in part, for the fact that the Report fails to stand up to close scrutiny. The Report is shown to have many of the deficiencies that have marked the Bank's earlier assessment work — an analytical framework based on state versus market with bias to the latter, limited scope of variables and factors, selective use and misinterpretation of evidence, self-fulfilling techniques for inferring preferred conclusions, etc. Whilst an analytical step backwards compared to the *East Asian Miracle* (World Bank, 1993), which is more accommodating to the state if it is market-conforming, there is a push towards stronger political conditionality to favour proponents of privatization.

The following section provides a brief critical review of the privatization literature. This is followed by an outline of the Report. These serve as background to the critical assessment of the Report. A brief final section contains some closing observations.

2 PRIVATIZATION THEORY: THE NEW SYNTHESIS

The theoretical framework underlying the approach adopted by the World Bank in this Report has its origins in the New Institutional Economics (NIE) and New Political Economy (NPE). It has been argued that the theory of privatization has given rise to a new synthesis incorporating strands from NIE and NPE and from the Neo-Austrian school (see Fine, 1989; 1990).[3]

This synthesis has been shown to suffer from a number of analytical weaknesses, which are summarized briefly below. The literature is marked by its circumstantial origins with a narrow analytical framework deriving more from fashions within economic theory than the genuine problems posed by privatization.[4] There is little understanding of long-term impacts. The literature is often based on a false dichotomy between the state and market with an undue bias, in theory and evidence, towards the role of the market and private capital.[5] The conclusions drawn have been over-generalized and are insensitive to the range of economic and political factors involved, as well as the way in which they interact with one another. There is a tendency to suffer from the panacea syndrome — the notion that privatization will itself generate or enhance the appropriate economic and political circumstances required for it to be successful. Alternatives for public sector reform and for developing the capacity for 'good governance' are ignored.[6] The impact of the constant

[2] See *Journal of International Development,* **9**(6), 843–897. Some papers are of particular relevance here: (Chang and Singh, 1997) explore the fact that private enterprises also have bureaucracies and raise a number of analytical and empirical points. (Jalilian and Weiss, 1997) find, using the data from the Report, no evidence to support the Report's central hypothesis, i.e. that countries with large state sectors have a lower than average economic performance. (Cook, 1997) questions the theoretical and empirical basis of the Report and explores the inconsistencies in the Bank's approach to public enterprise reform.

[3] See (Shirley , 1997, p. 856) for some of the theoretical influences behind the Report.

[4] For standard treatments of the literature, see (Vickers and Yarrow, 1988) and (Yarrow and Jasinski, 1996) for a four-volume collection of articles. See also (Cook and Kirkpatrick, 1988 and 1995).

[5] As in the new institutional economics, for example, on which see (Harriss *et al*., 1995).

[6] See (Haque, 1996), (Grosh and Mukandala, 1994), and (Fine and Stoneman, 1996). See also (Vogel, 1996) who demonstrates that liberalization (in the sense of more market competition) is associated with re- and not with de-regulation. Further, such liberalization and re-regulation are articulated in country- and sector-specific ways. The hypothesis that state actors, rather than politically organised interest groups, are primarily responsible for initiating liberalization is more open to question.

pressure for privatization, or at least to be market-like, on the motivation and ethos of the public sector has been neglected.[7] The framework is too narrow in its treatment of industrial policy. The significance of the historical, social, economic and political context of privatization is not adequately considered — privatization has generally led to a further consolidation of economic power, with an increased concentration of corporate ownership even where there has been the aim of spreading share ownership.[8] The literature neglects the demanding nature of regulation, (Fine, 1997). The incidence of privatization shows no systematic relation to economic and political variables,[9] although pressure from donors does seem to have been significant.[10]

Whether privatization occurs and how successful it is depends upon a complex range of economic and political pre-conditions. Consequently, international donors have become less enthusiastic about the immediate prospects for privatization and seem to advise a more cautious approach. Whilst this apparent shift in policy stance would seem to be in recognition of the weaknesses of the earlier single-minded focus upon privatization, the analytical and policy framework being employed remains remarkably unchanged and uncritical.[11] Further, such a policy has, as its counterpart, an implication that donor aid in support of good governance will be on terms that promote the interests and position of those who favour and stand to gain most from privatization.[12]

Broadly, then, pressure to privatize comes from:

- an unfounded belief in the superiority of the private over the public sector and of the amorphous market over the state;
- a neglect of the pre-conditions required for privatization to be successfully managed or simple faith that those conditions will be induced by virtue of embarking upon a privatization programme; and
- neglect of the broader social, political and economic environment in which privatization is located.

Paradoxically, the World Bank seems to have reached similar conclusions despite its pro-market stance. For, it would appear from the Report that the Bank is dissatisfied with the extent to which privatization has taken place and with the results where it has. This poor performance is attributed to the influence of political factors. However, the Report's analysis remains seriously flawed.

3 BUREAUCRATS IN BUSINESS: CONTEXT AND OUTLINE

This Report follows three earlier reports, The *East Asian Miracle* (hereafter referred to as the *Miracle*), *Adjustment in Africa* and *Averting the Old Age Crisis* which are seen by the World Bank as part of a series of which *Bureaucrats in Business* is the fourth that 'bring to a broad audience the results of World Bank research on policy issues',

[7] See (Haque, 1996), (Kumssa, 1996) and (Baer, 1996).
[8] See (Haque, 1996).
[9] See (Adam *et al.*, 1992).
[10] See (Jalilian and Weiss, 1997) who use data from this Bank Report to conclude that there is no support for the hypothesis that countries with large state sectors have a poorer than average economic performance.
[11] See (Ramamurti, 1992).
[12] See (Kumssa, 1996) and (Hemming and Unnithan, 1996).

according to the cover of the latest publication. Without commenting on the third, the first two of these previous volumes, which are centrally concerned with economic policy, have been shown to be sorely inadequate.[13]

Much of this Report's content and conclusions come from its own data and analysis. The Report examines the experience of state-owned enterprise (SOE) reform in a sample of 12 countries: Chile, China, Czech Republic, Egypt, Ghana, India, Republic of Korea, Mexico, Philippines, Poland, Senegal and Turkey.

The Report looks at the performance of SOEs in these countries in terms of financial performance, productivity and the savings-investment deficit (pp. 57–64). Three countries consistently performed well (Mexico, Chile and Korea). The Report then analyses the reform process to determine how success and failure are related to policy makers' reliance on what they call 'the five components of state-owned enterprise reform' (p. 67). These are: the extent of divestiture, the intensity of competition, the hardness of budgets, the extent of financial sector reform and the institutional arrangements between government and enterprises. The chapter concludes that these five elements are closely related to each other, with the countries which had the best performing SOE sectors, undertaking the most comprehensive approach to reform (p. 67–96).

The Report then considers the nature of contractual arrangements where the government continues to have ultimate control over an enterprise. Three types of arrangement are considered — performance contracts, management contracts and regulation. These are assessed in terms of their impact on profitability and productivity, which operate via the 'three incentive factors — information, rewards and penalties, and commitment' (p. 109). On this basis, performance contracts were not deemed successful. Management and regulatory contracts performed better. Having demonstrated the benefits to be achieved from SOE reform, the Report questions why so little effort at implementation has taken place. Factors other than economic efficiency must be at work and these are explored in Chapter 4: 'The Politics of SOE Reform'. The proposition is that, in order for reform to succeed, it must be *politically desirable*, *politically feasible* and *credible*. This hypothesis is tested using data from the sample countries with various proxies to account for the above three variables. The finding is 'that the three conditions of reform readiness ... consistently explain the reform outcomes for our entire sample' (p. 177). The subsequent chapter provides details on what to do once these political conditions are established (and what to do when they are not) in the form of a decision tree (p. 232) providing a step by step guide to overcoming the obstacles to enterprise reform and divestiture.

The Report closes, in its final short chapter, with implications for international financial assistance. It recommends that donors make a distinction between committed and uncommitted countries systematically on the basis of the three indicators of reform readiness.

4 A CRITIQUE

The Report falls into the pattern of those that came before although it is less researched and less substantive than the *Miracle*. It occupies a peculiar position

[13] See (Kumssa, 1996).

relative to the *Miracle* which it follows by more than a year in publication. In terms of its analytical, empirical and policy position, it represents a considerable step *backwards*. For, unlike the earlier report, it has once again narrowed the terrain of discussion around industrial policy towards quite narrow parameters. It fails to consider (dynamic) economies of scale and scope and the creation rather than the use of comparative advantage. Reference to selective finance and subsidies and the like, is all from a perspective that primarily emphasizes their negative consequences. At least the *Miracle* recognized the positive — even the essential — role to be played by industrial policy beyond the provision of infrastructure, although it tended to be interpreted as what the market would have done if it had been perfect.[14] On the other hand, this Report goes beyond the *Miracle* and most if not all previous reports by the extent to which it implicitly points towards donor agencies, presumably including itself, exerting an indirect influence on countries' political outcomes processes. The Bank's analytical framework falls fully within that of the privatization synthesis and the problems outlined in the second section, above, all apply here. Where the approach of the Bank differs slightly from that of the broader mainstream as theory is in its focus on the bureaucratic nature of state intervention rather than on the micro-level, incentive-based details, which preoccupy much of the synthesis. The Bank's neglect of the role played by bureaucracy in the private, as well as the public, sector has already been documented (Chang and Singh, 1997).

The Report constructs its understanding in terms of a simple dichotomy, and hence conflict, between the state and the market, creating a narrow analytical, empirical and policy framework within which all aspects of public and private sector activity are located. The evidence inevitably points to the desirability of as much privatization as possible or as much reliance upon market forces as possible where state-ownership is maintained. As a result, a number of analytical weaknesses emerge, in particular:

1. Within this framework the Report takes an ideologically favourable stance towards the market, thereby overlooking or reinterpreting evidence that favours state economic intervention. Even contrary evidence is used to support the pro-market stance. In other words, the evidence will rarely, if ever contradict the predetermined analytical and policy positions. This is very much in conformity with the *Miracle* where, for example, state intervention is perceived, when successful, to have been market conforming. To ensure that the evidence fits the framework, many obvious questions and implications arising from the analysis are not adequately explored.
2. The use of evidence is selective, biased and tied to much stronger conclusions than are warranted even if the evidence itself could be considered satisfactory.
3. The Report takes a very narrow view of what constitutes industrial policy tending to interpret it alone in terms of whether there are price distortions or not. Therefore the conclusions reached from the study are inappropriately applied to a vast range of varying circumstances.

These points are explored further below, although it is acknowledged that there is considerable overlap between the broad headings.

[14] See special section in *World Development,* **24**(4), 1994, (Fine and Stoneman, 1996), (Wade, 1996) and (Mosley *et al.*, 1995) for devastating critical discussion of these World Bank Reports and the thinking and methods that have informed them.

4.1 Narrow Analytical Framework

The broad conclusions of the Report are as follows. Privatization is in most cases desirable and, where it is not, regulations of state-owned or private enterprises are more desirable the closer they come to the market in the form that they assume. This raises the issue of why more privatizations have not taken place and why they have not always been successful when they have occurred — there is dissatisfaction with the extent of privatization, especially in low income countries where, according to the Report, the benefits are liable to be particularly great. Of course, one obvious conclusion to investigate from this evidence is that privatization has not occurred so much because it is undesirable and that it has often been unsuccessful because it has been forced through when it should not have been; and this is especially so for low income countries where at an early stage of development, state ownership might be essential. The desirability of privatization is never in question.

To some extent the Report accepts that privatization might have been unsuccessfully adopted as a policy but only if done so prematurely. It even suggests that the World Bank has itself been guilty in this respect by promoting premature privatizations ('... well-intentioned outsiders, including the World Bank, have sometimes attempted to prod developing countries that are not ready for reform into acting.' (p. 231)) although the Report is notably short of details of this (where and when) and of self-criticism in examining how this could have come about. Nor is there any examination of what follows logically from this admission of premature privatization — that they might be reversed or that there may be private capitals that should be taken into public ownership; better a bad privatization or private sector than to encourage state ownership!

What the Report argues in order to explain limited privatization and less than perfect success in privatizations is that the three desired conditions for reform have not been met. This framework raises obvious a number of questions which are not adequately explored in the Report.

First the *political desirability* of the policy needs to be established. In other words, there has to be government support for the policy. It is argued that this is liable to come about either through a shift in political regime (change of power bloc by whatever means) or through an existing crisis that shifts the perceived balance of costs and benefits for an existing regime. Although it is not a step taken in the Report, it follows that a shift in regime or even the engineering or threat of an economic crisis might be desirable in order to attain the longer term goals of more and more successful privatization. This represents a considerable departure from the earlier World Bank approach which warned that public enterprise reform in periods of crisis was not usually sustainable, (Cook, 1997, p. 893).

Second, there is the need for the privatizations to be *politically feasible*. This implies that those who lose by the policies have to be defeated or compensated if they have the power to obstruct them. The Report hastens to observe that it does not necessarily see this as less of a problem in an authoritarian regime especially in conjunction with desirability and credibility (on which see next) but does seem to regard favourably the link between feasibility and authoritarianism.[15]

[15] The *Miracle* also argues that the market-conforming policies of East Asia cannot be replicated in other countries. According to (Busumtwi-Sam, 1996), this stance is contradicted in a confidential World Bank report on Ghana which suggests that it follow the East Asian model of economic development.

Third, government reform has to be *credible*. Other agents have to be confident that policy intentions will actually be carried out. This implies the creation of a reputation for honouring commitments and the presence of domestic and international restraints on policy reversals.[16]

The triplet of political desirability, political feasibility and credibility provide more or less for an analytical and empirical guarantee that whatever outcomes or evidence might present themselves, they will conform to the previously developed hypotheses. If privatization does not occur or is unsuccessful, it can be readily interpreted as having lacked desirability, feasibility or credibility. These three factors provide a descriptive framework into which success or failure almost inevitably sit comfortably. This is the case, despite the fact that the framework is not entirely devoid of causal content. For example, the feasibility factor is empirically operationalized for statistical purposes by measures of overstaffing which is intended to provide an indicator of the strength of opposition to reform (p. 191).

This Report goes further than its predecessors with the final short chapter where it recommends that international financial assistance should be organized around the achievement of privatization, providing support according to whether the criteria for desirability, feasibility and credibility are met. In other words, support for public sector reform and for privatization should be tailored to take account of performance in all three areas. Again it is but a short step to see this as an implicit form of political conditionality, the latter being quite extensive in terms of regime or power bloc shift appeasing those who are both powerful and liable to lose by the privatization process and giving high priority to both domestic and foreign interests in pre-empting policy reversals (thereby tying the hands of future governments).

The Report also goes beyond earlier reports in its recognition of the fact that the market does not always work best, arguing that privatization (and more general support for reform of state enterprises) ought to wait upon other reforms or changes in political conditions. Put another way, this is an argument for sequencing in which privatization needs to be delayed until other economic and political conditions have been met. This raises the issue of what should be done in the meantime. The answer is a step back into orthodoxy once again with emphasis on policies that are conducive to the growth of, and dependence upon, market forces. Until privatization can proceed, it is essential to adopt policies that correspond to orthodox stabilization and structural adjustment (p. 237). This solution is accepted uncritically despite the record of poor outcomes, whatever the claims of *Adjustment in Africa* to the contrary. There is an inherent contradiction here as it is likely that the countries which are not ready for reform are low-income countries, and yet these are the very countries which the Report says have most to gain from reform.

[16] Thus, (World Bank, 1995, p. 191), 'whether a country has a more or less authoritarian form of government is therefore a strong indicator of feasibility'. See Busumtwi-Sam (1996) for a discussion, in the context of Ghana, of the irrelevance of authoritarianism versus democracy as a starting point for addressing the performance of the state. For similar, more general conclusions, see Haggard and Kaufman (eds) (1992) and Haggard and Webb (1993).

4.2 Selective Use of Evidence and Bias in Interpretation

The Report presents limited evidence in support of the superior performance of the private sector and, as is habitual in its publications in general, overlooks the literature that questions this conclusion. Page 37 provides details of empirical literature 'that deals with the issue of private versus public efficiency'. The citations are selective and biased — see (Cook, 1997), who identifies some relevant omitted studies, and also (Chang and Singh, 1993). The study by (Galal *et al.*, 1992) is cited a number of times in the Report as evidence of the beneficial effects of privatization of monopolies, despite the fact that the authors of this study specifically warn against extrapolating their findings to very poor countries or the former socialist countries.[17]

A number of points need to be made here. First, quite apart from the difficulties in devising and making appropriate measures of performance between public and private enterprises, the criteria employed generally favour the private sector since the public sector may be subject to other conditions of operation. Second, there is a sense in which the sample is biased since those private sector enterprises that fail will be excluded from the sampling. Third it is forgotten that privatization often arises out of the creation of enterprises through state inspired initiatives that would not have occurred under private enterprise and which may be abandoned by the private sector in less favourable circumstances

The fact is that the empirical evidence to date of significant difference between public and private enterprise performance is extremely weak.[18] Sometimes one is superior, sometimes the other even by the criteria of the private sector itself.[19] What is much more important is that the difference in performance between enterprises of one country as opposed to another is far more significant than the difference of ownership within countries. It is what private and public share in common within a country that needs to be examined carefully. Even if the performance of public and private enterprises were equalized within countries, this would raise economic performance very little compared with the differences of performance from one country to the next. This conclusion would seem to be borne out by evidence from the Report, which finds that the same countries (Korea, Chile and Mexico) consistently achieve the best results. The focus upon differences in ownership rather than common conditions of operation is a major weakness of this Report both analytically and in policy proposals, discussed further below.

The selection of indicators of strength of SOE reform ensures that the procedure yields the desired results, when in fact the causality could work the other way. Suppose that enterprise performance is independent of the features listed (divestiture, competition, hard budgets, financial sector reform and relationship with government). Suppose also that there is considerable pressure for privatization from domestic as well as international agencies. Successful state sector reform could be the engine of market-led policies — it is easier to divest more fully if your enterprises are

[17] The notion of credibility has its origins in part in game theory, where agents have to be assured that those with whom they bargain, including the state, will keep to their word.
[18] See (Rowthorn and Chang, 1992) and (Chang and Singh, 1993) for example.
[19] 'Caution must be exercised in extrapolating our results to very poor countries which lack some of the institutions and markets our [middle-income] sample possess. The same caution applies to the former socialist countries which ... almost completely lack private sector institutions and the kind of market mechanisms taken for granted in mixed economies. In both instances divestiture outcomes may differ from those found here', (Galal *et al.*, 1992, p. 563).

successful. Similarly, you can bear competition in product markets, impose hard budget constraints, draw upon and sustain financial sector reform and arrange for greater independence from government.

This alternative perspective can be used to interpret the apparently anomalous finding that the countries that divested the most tended to improve SOE performance the most (p. 58). The Report, somewhat weakly, attempts to account for this result using the market-focused framework discussed above:

(i) 'By reducing the size of the state owned enterprise sector, they may have been able to concentrate scarce managerial skills on those that remain, thus improving their performance', (p. 70) and
(ii) 'Further, former SOEs that have been privatized may have induced greater competitive pressure on remaining SOEs'. (p. 70)

Both explanations are inadequate as the first implies a substantial increase in availability of state resources once an enterprise is sold. This is not usually the case and in fact the divestiture process itself can use up significant amounts of 'scarce managerial skills'. The second is unlikely as competition is not expected to be significantly affected due to the limited weight of privatization and what is liable to be an extremely narrow overlap between the markets served by the private and the continuing public sector.

This reasoning in the Report implies that privatization can, in itself, generate an improvement in the performance of SOEs. However, a closer look at the data (Table 2.2, p. 69) raises further questions. Of the three 'good performers' only two carried out significant divestiture. Korea actually did very little, thus invalidating the blanket claim that 'successful reformers divested more' (p. 69). The Report attempts to get round this by pointing out that Korea already had a small state sector. Why then did Turkey, which apparently had a smaller state sector and carried out greater privatization than Korea, remain a 'poor performer'? There are further caveats to account for this. The fact is that these results do not lend themselves to such conclusions.

The Report fails to explore that the so-called 'good performers' already had a strong state sector before reform or divestiture took place. They are also the countries with the most developed financial sectors (p. 89). They are also middle-income countries. A much more obvious explanation of the 'anomalous' finding is that there are similar factors or policies that have enhanced the performance of the public, financial and private sectors, independent of privatization as such.

Similar concerns can be raised when it comes to the contractual options put forward for enterprises remaining in the public domain. The possible arrangements identified are performance contracts, management contracts and regulation. Subject to capacity to implement, these are favoured in reverse order of listing on the basis of another triplet of putative causal factors: first, informational considerations (which are seen somewhat strangely as being enhanced exclusively by competition rather than for example by auditing even of the type that the Bank is itself engaged upon in this Report); second, the use of rewards and penalties to provide appropriate incentives; third, commitment to ensure that contracts are properly formulated and monitored by government or independent agency.

The desired analytical and empirical results can be interpreted as almost inevitably corresponding to the descriptive framework and the causal associations could easily function in the opposite direction. The critique of performance contracts, for example, is quite detailed but more in the vein of their inadequate specification and implementation than their unsuitability *per se*.

This evidence presented provides no clear proof of the superiority of one system over another. Conclusions are reached on the basis of very small samples using measures which clearly favour market-based arrangements — it cannot be a surprise that the introduction of performance contracts, where state ownership is retained, does not bring about an increase in profitability. Yet these results are used to support the adoption of management contracts and regulation rather than performance contracts. Further, there is a questionable logic in the reasoning put forward to account for this conclusion. For example, the discussion on information asymmetry under the performance contract arrangement describes a low-paid government official who is at a disadvantage dealing with the enterprise representative of much higher status (p. 121). Surely this is equally if not more pertinent to the issue of regulation of a private sector monopoly. However, the discussion on information asymmetry with regard to regulation contracts focuses on competition (pp. 156–158), which is bizarre when it is the absence of competition which provides the need for regulation.

One might be tempted to think that the conclusions have more to do with the ideological standpoint than the evidence. Not surprisingly, performance contracts, which are the least market oriented of the arrangements under discussion, are the least favoured.

It seems that much of the analysis falls into varieties of ad hocery which is simply designed to support pre-determined conclusions. The treatment of China is superficial and biased. Take, for example, the discussion of China's Township and Village Enterprises (TVEs). TVEs are widely acknowledged to be the engine of growth in China and they are, according to this Report, publicly owned. However, they are classified as non-state, not on the basis of ownership but because of the way they are managed — they are locally run, face hard budget constraints, have greater autonomy with fewer social obligations and operate under greater competition (Box 2.4, p. 74). Surely this is a case of adverse selection when well-run publicly owned enterprises are not classified as SOEs largely because of the way they are run. Rather than going through hoops to fit such enterprise organizations into the public/private dichotomy, would it not be more useful to see what can be learned from the success of TVEs?[20] Also we are treated to the observation that there is a cross-country correlation between greater deficits on the public enterprise account and the overall fiscal deficit — leading to the conclusion that state-ownership is bad for public finance. However, such a correlation is more or less automatic given that the one deficit is a part of the other!

4.3 Narrow View of What Constitutes Industrial Policy Leading to Over-generalization of Conclusions

Private and public ownership and forms of competition and regulation are just a part (and not necessarily the most important part) of industrial policy. One consequence of the Report's approach is that its policy proposals are generalized without

[20] See (Chang and Singh, 1997, p. 872) for a detailed critique of the treatment of the SOE sector in China.

sensitivity either to the specifics of the country concerned — its level of development, its position in the world economy, its internal economic and political dynamic etc — nor to the specifics of the sectors involved. This leads to over-generalisation both in terms of the policy framework adopted and in the empirical evidence employed. This is evident in the decision tree (p. 232), reproduced here.

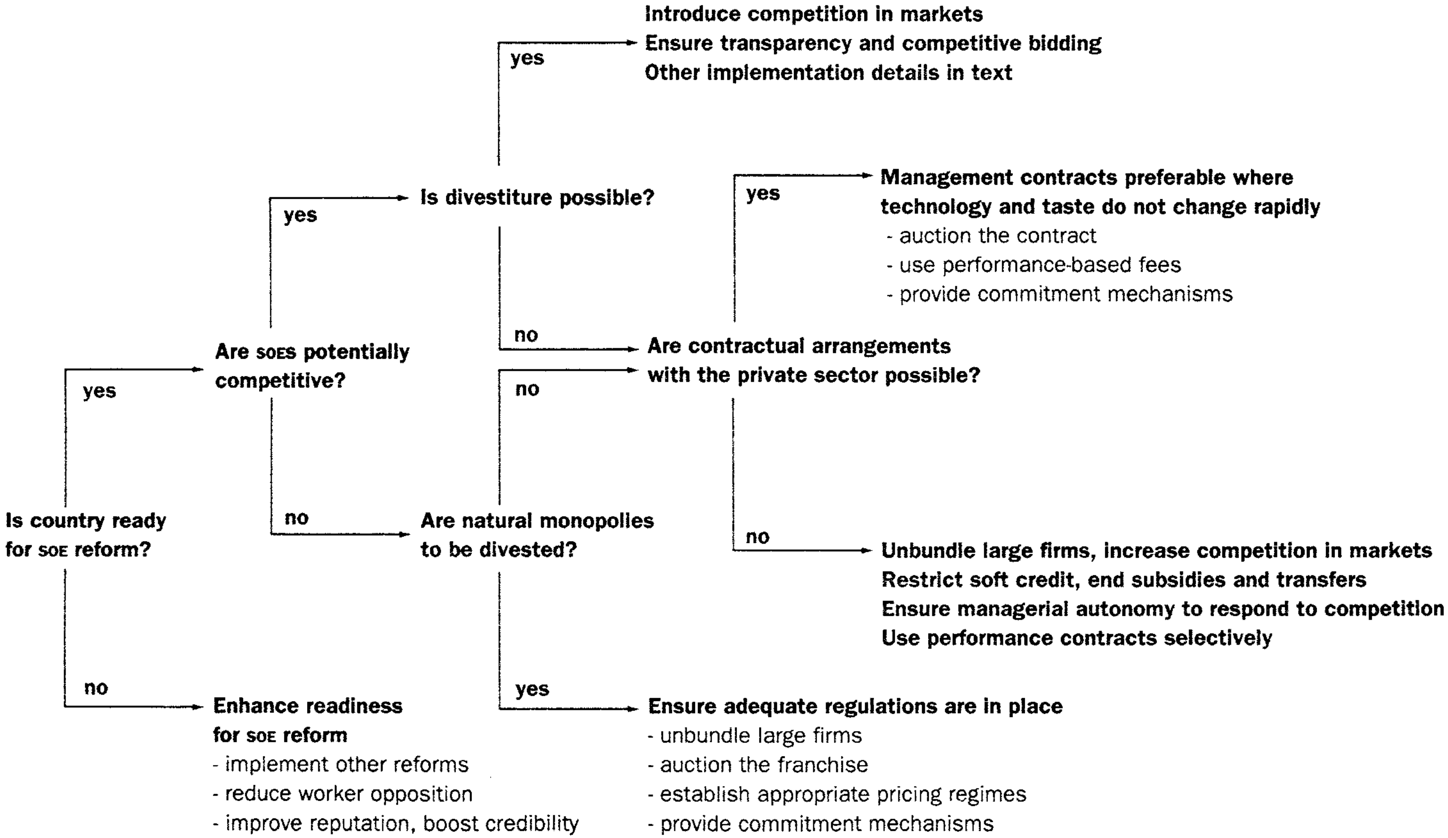
Are we really to believe that this is adequate for decision making irrespective of the sector concerned and irrespective of the country, region or level of development?[21] This is not a matter of detail, which is thin within the figure, but whether the same species of tree is appropriate in all circumstances. This is especially important in view of the narrow experience upon which the report draws (a limited review of 12 diverse countries) irrespective of how well it does so.

The privatizations that have occurred so far in developing countries are primarily in Latin America, Asia and Eastern Europe (Table 1.1, p. 27) and are concentrated in primary, industry and infrastructure sectors (Table 1.2, p. 28). Since 1988, the value of infrastructural privatizations in developing countries has been totally dominated by telecommunications (60 per cent) and to a lesser extent, power which accounts for a further 27 per cent with gas distribution accounting for a further 10 per cent (p. 151). Can we extrapolate from these examples? The answer is surely in the negative. Taking for example the telecommunications industry, this has unique features which do not prevail in other sectors of the economy. These include the (prospective) scale of the market and existing state of the network, the linkages upstream and downstream with other activity such as electronic and electrical goods manufacture and data processing, the availability of skilled labour and the need to engage in joint ventures and negotiate with powerful multinational corporations.

Such considerations significantly do not figure in the decision tree nor in the analysis in the Report at all. Their incidence will be different and they will interact differently from one country to the next and from one sector to the next. Accordingly, in general the Report is not suitable as a guide to policy — indeed it is a contribution only in the negative sense of precluding the sort of policy frameworks and policies themselves that might be most apposite. For, far from starting from a dogmatic position favouring the market, in the context of reform of public sector enterprise, it is more appropriate to make a sector-specific and country-specific industrial policy. This should take into account economies of scale and scope, technological requirements etc. Then, on this basis, although the sequencing between policy formulation and forms of implementation need not be so rigidly separated, decisions can be made concerning the most appropriate form of state economic intervention including ownership decisions, in order to pursue the strategy formulated.

It can even be argued that this is the way in which policy is in fact implemented even if in favour of special interests and not always as consciously as laid out here and with as wide a scope of factors taken into account. Further, the successful late developers can be interpreted as having consciously employed such a policy process in conjunction with specific development goals. By contrast, not only is such a targeted framework eschewed in this Report in favour of a generalized reliance upon the market as far as political conditions allow, it even sets aside scope for the

[21] For a much more complicated 'tree' with far more hoops to leap before embarking upon privatization, see (Rodinelli and Iacono, 1996). Despite the latter's sympathy for privatization, the preconditions they infer are necessary would tend to preclude any taking place in practice!



Source: See chapter 5 text.

Figure 1. A decision tree for state-owned enterprise reform. From *Bureaucrats in Business: The Economics and Politics of Government Ownership* by World Bank, ©1995 International Bank for Reconstruction and Development/World Bank. Reproduced by permission of Oxford University Press, Inc.

formulations and use of industrial policy where privatization is recommended however appropriately. For one policy recommendation is to devote as few resources as possible to public enterprises targeted for privatization in view of the limited extent to which such resources are liable to be well-spent and to accrue a return in the sale price. The only exceptions made are for smoothing the privatization process itself through capital write-offs and redundancy payments to reduce overstaffing. In short, nothing could illustrate better the extent to which the Report is ideologically wedded to a general belief in the superiority of the market and the futility of the state deploying an industrial policy even where this is to function through prospective privatized enterprises.

5 CONCLUDING REMARKS

For almost two decades, debate over industrial policy for developing countries has been dominated by the agenda set by the World Bank and the IMF. This has pitched the state against the market with the Washington consensus heavily favouring the latter and breaking with an earlier traditional dependence upon industrialization led or heavily influenced by the state sector. More recently, long-standing theoretical and empirical criticism of the Washington consensus has, in conjunction with other factors, such as the increasing importance of Japan as an international donor, begun to have an effect particularly in the light of the experience of the East Asian NICs for which state economic intervention has been shown to have been both necessary and highly effective.[22]

But old ideas die hard — and unevenly. If there is a sea-change swelling up against the Washington consensus it still remains far over the horizon. This is evident in the 1996 World Development Report which advises transition countries on how to become fully-fledged market economies by adopting the standard package of liberalization and stabilization policies. Further, despite the apparently moderate tone and stance towards the state of the 1997 World Development Report, the message is even more radical in so far as states are urged not to operate in areas where they do not have the capability.[23]

If the fields of development economics and development studies are to embark upon a new agenda it is imperative that it is not set by those responsible for the old agenda. The fundamental framework within which privatization, for example, has been debated by the bureaucrats in the Bank is unacceptable and would remain so even if it were modified to be more state-friendly in principle rather than market-friendly by dogma.

[22] See (Wade, 1996).

[23] According to *Bureaucrats in Business*, if the conditions for reform are not clement, governments are encouraged to focus on the macroeconomic climate. The latest advice from the Bank, however, is for these states (for they are likely to be the same countries) to match their role to their capability, signalling a reduction in the significance of the public sector and increased reliance on the private sector.

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