Comments on Ben Fine's paper 'Privatisation: Theory with Lessons from the UK'

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Comments on Ben Fine's paper:
"***Privatisation: Theory with Lessons from the UK***"

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The question of the extent to which government should interfere in the economy is as old as economics. Up until the great depression of the 1930's it was believed by the majority of economists that government's role should be limited to the absolute essential functions described in general terms by Adam Smith, that is the provision of justice, police protection, provision of money, etc. During the great depression the emergence of Keynesianism, which armed with the concept of effective demand provided the necessary theoretical framework for extensive government intervention. The new rationale for government intervention was not confined to humanitarian reasons (such as creation of public works, provision of food and shelter for the poor, etc.) but to the necessity to enhance effective demand. Thus, the government's role, besides its usual tasks (i.e. the regulation of the supply of money, the provision of national defense, police protection and administrative justice) expanded to production activities. In the last two decades (the year 1973 is considered the benchmark year) the mood has changed dramatically. Keynesianism in the late seventies and early eighties was in dispute and now it seems that has merely become a chapter in the history of economic thought books. Government intervention is no longer considered as a cure for the malfunctioning of the system but rather the very cause of its current crisis. In this context, often privatization is considered as panacea that will solve the problems of government deficit, will reduce the size of the national debt, reduce inflation because of the concominant increase in productivity and the reductions in the cost of production. The recipe is simple and easy to popularise: all it takes is change in the form of ownership and the problems that mark the economies of most countries will sooner or latter disappear.

Ben Fine's paper raises doubts about the validity of the arguments that favour privatisation by examining the theoretical as well the empirical issues concerning the policy of privatisation. Instead of approaching privatisation as a mere political and ideological element, it seeks to provide a more appropriate materialist perspective. The emergence of the policy of privatisation and the theoretical discourse surrounding it are to be found in the shifting conditions under which the accumulation of capital has been occurring. These shifting conditions, according to Fine, have been marked by three major developments. First, the restructuring of capital within the sphere of production has been characterised by

(a) the internationalisation of production which challenged state-owned enterprises, since they were limited to domestic ownership alone and,

(b) the introduction of new technology which, by changing the borders between the sectors of the economy, affected the division between the public and the private sector.

Second, globalisation and the new technology had a particular impact upon financial capital giving rise to a wealth of 'idle capital'. Third, one of the main elements of capitalist restructuring is the so-called labour-market flexibility and privatisation has been an instrumental lever for this purpose.

Then Fine critically reviews the orthodox approaches to privatisation and points out their deficiencies. He argues that, within orthodox theory, there is a shift from the 'old' Keynesian public sector economics (founded on the notion of market failure) towards a new synthesis[1]. The latter draws upon three distinct trends: new political economy, neo-classical new institutionalism and the neo-Austrian school. The first strand analyses state economic activity on the basis of the notion of rent-seeking. Neo-classical new institutionalism studies the relationship between market and non-market institutions based on the concept of transaction costs. Finally, the neo-Austrian school distances itself from the equilibrium analysis and the formal mathematical models of the two previous strands and is primarily concerned with the dynamics of a market economy in an uncertain and changing world. The marriage between these strands is rather uneasy since there exist considerable differences among them. However, there is a common core based on three main points. The first is the notion of the quantity theory of competition (Weeks (1981)), that is the conviction that the main and decisive part of the economy has to be left to the market and the only role for the state is to oversee the smooth and unhindered operation of competition. This belief - as Fine notes - is true only in the context of orthodox neo-classical economics and under extremely restrictive conditions. The second common point is the change in what constitutes industrial economics, with the neglect of the informal and institutional elements and the recourse to mathematical equilibrium models and game theory. The new industrial economics used by the new synthesis have narrowed the range of explanatory factors to those that immediately amenable to mathematical modeling. The last common point is the resulting redefinition of industrial policy which has been confined to competition, regulation and ownership (at

[1] The course towards the new synthesis can be seen in Fine (1990).

the expense of previously important areas, such as R&D, skills, infrastructure, vertical integration etc.).

Fine advances a number of thought-provoking arguments against the new synthesis. Two of them are of great significance. First, the new synthesis fails to take into account the broader socio-economic conditions. This is exemplified in its treatment of property rights. The second criticism is that the new synthesis is essentially microeconomic and partial in its analytical scope; therefore, it fails to take into account the macroeconomic environment. These shortcomings are expressed in many cases, as in the substitution of an active and thorough industrial policy by mere state regulation.

The last part of the paper draws lessons from UK experience on privatisation. It disputes convincingly popular notions such as the Thatcherite popular capitalism and the share-owning democracy as well as the - seldom dictated - beliefs that the private provision of goods and services is more efficient from public. One of Fine's most important conclusions is that, contrary to popular ideology and neo-liberal exclamations, privatisation does not imply the withdrawal of the state from the economy but rather a different role for it. In a previous study Fine (1989, p. 238) has argued that 'privatisation as such does not represent a break with the past and that at the level of industrial policy-making it exhibits continuities with what has gone before and brings to fruition the re-commercialisation of the public enterprises over the past 40 years.

The general perspective proposed by Fine (i.e. a materialist approach grounded on the shifting conditions of capitalist accumulation) is beyond any dispute. However, what appears to be missing is a clear and coherent alternative approach. We believe that the crucial point, on this plain, was the crisis that erupted in the mid-1970s. This crisis - a crisis of overaccumulation due to the falling rate of profit (Moseley, 1990; Shaikh and Tonak, 1994) - marked the end of the previous era of capitalist accumulation and the beginning of the search for a new era. Capitalist restructuring expresses the heuristic attempt to restore profitability and henceforth accumulation. This requires - as Fine and Harris (1979), in the chapter on periodisation, have accurately argued - a change in the forms of extraction of (absolute and relative) surplus-value and the concomitant ways of socialising production. The new era is characterised by a drive to increase both absolute and relative surplus-value with a simultaneous change in their interrelationship. Whereas the extraction of relative surplus-value remains always dominant the capitalist system increases, also, radically the extraction of absolute surplus-value. This is a major difference from the previous era - that following the crisis of the 1930s - where the sole main vehicle of overcoming the crisis was the increase of relative surplus-value. These developments are founded in changes in the (relatively dominant) sphere of production, through the re-organisation of the labour-process on the basis of flexible work, enabled by the introduction of the new technologies. They are reflected in the sphere of distribution through radical changes both of the determinants - and the forms of coverage - of the value of labour-power and the forms of distribution of surplus-value between the different sections of capital. And, last but not the least, they are reflected in the form of socialisation of production. There the borders between the private and the public as well as the role of the state as collective capitalist - and particularly of its economic activities - change also.

It is within this context that an alternative critical perspective should situate privatisation. The internationalisation of production as well as the abundance of idle financial capital are derivatives of these fundamental changes. This missing link in the study of the course of capitalist accumulation is coupled with a noticeable lack of a general theory of the capitalist state and its economic activities. Such a theory has been advanced in Fine-Harris (1979) but seems to be substituted in subsequent works by a more relativised historical perspective. For example, Fine and Harris (1985, p.150) claim that it is impossible to derive a general theory of nationalised industries[2]. Similarly, in the present paper (p.11) Fine claims that it is erroneous to seek a general theory of privatisation, since each sector of the economy and each country has its own characteristics. What we find necessary is the development of a theory of the phase change (periodisation) of capitalism[3] together with a general theory of the capitalist state. Such an approach can analyse both the content of privatisation and answer the fundamental question of its cause (i.e. why is it necessary today for the capitalist system to recourse to privatisation). The particular characteristics of a sector or country can be studied from within this general perspective.

The state as the collective capitalist played a crucial role in the post-WWII period. On the one hand, it planned the reconstruction of the economies and the restoration of capitalist relations. Its role in the pre-war period is pretty much the same, since the economies had to be reconstructed and capitalist relations reconfirmed in the face of the revolutionary threat posed by the workers' movement. On the other hand, the state as a producer assumed the production of those goods that either required big capital expenditure and expensive technology, or possessed a strategic character for these economies. In the first case private capital usually was not willing to or could not undertake these investments and the risks associated with them. In the second case it was not functional for the capitalist economies as a whole these activities to be organised along private lines because of concerns for the creation of monopoly situations. These goods - whether they were partially of fully commodified - operated either as cheap

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[2] This argument is based on the identification of three different periods of nationalisation in Britain. The first (inter-war) and the second (post-war) wave of nationalisations aimed at the restoration of the declining capitalist relations of production and the restoration of capitalist control. On the contrary, the third (after 1967) wave aimed merely at restoring profitability.

[3] Different approaches exist on this plain. Changes in the historical course of capitalism can be theorised from within the framework of either a theory distinguishing periods-stages or a theory of long-waves which however does not distinguish different historical stages.

intermediate inputs in private capitalist production processes (thus supporting the profitability of the later) or covered areas of the reproduction of labour-power (thus removing the pressure of wage conflicts from private capitals). Last but not the least, since the working-class emerged strengthened after the war, the public sector facilitated its incorporation in the system, since it usually operated with less than average rates of exploitation and profit (reflected in the better conditions of work, secure employment etc.). This led to an increase of non-productive expenditures guaranteeing the reproduction of the system. The postwar 'golden era' was based on exactly these relations, proving that state economic activity does not conflict with private capitalist success.

The crisis of the 1970s signified the end of that period. The abundance of accumulated capital unable to find profitable fields and the defeat of the workers' movement created both the pressure and the conditions for the privatisation of state economic activities. First, the existence of many big private capitals searching for investment removed the danger of monopolisation of, at least, strategic areas. Second, the defeat of the workers' movement opened the way for the increase of the rates of exploitation in public enterprises. Finally, many goods that were produced by public enterprises and were not fully commodified before nowadays are being commoditied (i.e. sold in the market rather than provided with subsidies). For all these reasons the fields previously covered by state economic activities had to be opened to private capital. The trend towards either overt privatisation (sell to private capitals) or the adoption of private economic criteria in the management of public enterprises has the same aim: the direct and indirect enhancement of profitability and capital accumulation.

To conclude, it is necessary today to confront the neo-liberal assault by advancing a superior alternative critical theoretical perspective and by revealing the former's empirical deficiencies. This paper by Ben Fine is surely a contribution in this direction.

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