

## BOOK REVIEWS

**Steve H. Hanke (editor), Privatization and Development, (International Centre for Economic Growth, California, 1987), pp. ix+237, n/p.**

The book is a collection of papers read at a conference on privatization sponsored by the U.S. Agency for International Development (USAID) held in Washington D.C. in February 1986. It brings a tremendous amount of knowledge and expertise related to privatization and is a useful manual on how to privatize for a country embarking on privatization. It is divided into six parts. Part I of the book presents an overview of privatization, and its rationale in the developed countries (DCs) and the less developed countries (LDCs). Contributors to this part of the book include Steve H. Hanke, L. Gray Cowan and M. Peter McPherson.

In Part II Elliot Berg's chapter on the role of divestiture in economic growth is interesting for the light it sheds on the differences in motivation to privatization, its modalities and the economic environment in the LDCs and the DCs. It states that the major motivation to divestiture in the DCs is search for dynamic management, while in the LDCs the major preoccupation is with reducing the fiscal and the monetary burden. The second difference has to do with the modalities. In the DCs the process involves locating the right merchant banker, getting the assets valued and putting up the company for sale in a developed capital market environment. While in the LDCs the process is one of finding buyers in an environment where the capital markets are thin with few potential buyers. The third difference has to do with the economic policy environment, where there is a well structured legal system, a more or less competitive environment without excessive controls and a relatively open international trading system in the DCs. While the constraints in the LDCs are related with labour laws, regulations and protectionism. And finally, domestic political constituency for privatization is very small in the LDCs. The most important message that permeates from this chapter for policy makers in the LDCs is, that blindly following the privatization policies evolved in the DCs is not the answer, as problems in the former are different from those of the latter. Other contributors to Part II include Robert Poole's enumeration of the political obstacles to privatization, necessity of property rights by Steve H. Hanke and politicization of privatization by Manuel Tanoira.

The most practical part of the book, i.e., Part III is the most useful from the perspective of a country like Pakistan that has embarked on a massive privatization programme. There are six chapters dealing with planning and strategies for a successful privatization programme. The chapter by Lance Marston deals with the pre-privatization institutional development, an aspect mostly ignored by the over-enthusiastic policy makers in the LDCs. The author states that the political situation arising out of privatization needs to be assessed, for example, the effect of privatization on the public, on the employees of the state owned enterprises (SOEs) and on the steps that the government needs to take to protect their rights, the impact on the business community, the allocation of business between local and foreign firms etc. The author cautions that a way has to be evolved of dealing with groups threatened by privatization. An important issue highlighted by the author is whether the privatization programme proceed incrementally or 'whole-hog' an issue completely ignored by some of the LDC governments, partly due to their over-enthusiasm with privatization, and partly due to the urgency to reduce the drain on the national exchequer. It is interesting to note that a country like Pakistan where far more preparation and institutional development is entailed, has embarked on a 'whole-hog' type of approach, whereas Britain where much less preparation for privatization was required opted for the incremental type of approach. Enumerating the different phases involved in the preparation for privatization the author recommends an organizational survey entailing an assessment of costs associated with labour, fringe benefits, material supplies, capital and equipment, contractual services, travel and overhead costs. Other important questions that need to be addressed during the preparation stage are the existing local capacity to perform the function, capitalization burden on both the government and the private sector, local business interest, improved efficiency, increased local jobs, expanded opportunities for local business etc.

Discussing strategies for successful privatization Steve H. Hanke also has many sensible advices to offer. He states that the involvement of bureaucrats in the privatization programme should be kept to a minimum. Moreover, the author states that deregulation is an important element of a privatization programme and shows that price controls on goods and services can create serious problems and hamper the ability of the private firms to perform. He concludes that the most important precondition for a successful privatization programme is the un-equivocal support of the highest political authority. The other chapters in this part of the book deal with the legal and tax consideration of privatization by Peter Thomas, marketing SOEs by Ted M. Ohashi, marketing SOEs in the LDCs by Pedro-Pablo Kuczynski and financing of privatization by Rosendo J. Castillo. As we are aware marketing of SOEs poses quite a dilemma in the LDCs where the governments are interested in selling enterprises that are non-profitable, while the private sector is interested in the more profitable SOEs. Ohashi states that enterprises where liabilities are more than assets need to be liquidated, for selling such enterprises would be more costly. He

then goes on to discuss the different options on marketing of SOEs i.e., through the capital market or an auction. Focussing on financing of privatization in the next chapter, Rosendo J. Castillo discusses the pros and cons of the different options. He states that in countries like the U.K. and the U.S.A. developed capital markets are used to finance privatization. This mode of privatization has the advantage that it places the shares of the company in the hands of the general public, as in the case of the British Airways, the British Gas and the British Telecom. The other method of marketing, i.e., through an auction has the disadvantage that the goal of democratization of ownership of the company is not accomplished.

Part IV dealing with privatization for development contains chapters on privatization of public services contributed by Gabriel Roth, agriculture and agri-business by Ian Marceau, financial sector by Lawrence H. White. While the anatomy of a debt swap and private and public responsibilities in privatization have been discussed by Steve H. Hanke and Madsen Pirie and Peter Young respectively. Much of the evidence Lawrence White cites from the LDCs sounds familiar to what has been happening in Pakistan, where state controlled banks have squandered scarce capital to politically affiliated persons. The author states that privatization of the financial sector will ensure that loans are steered towards viable projects. Another advantage of privatizing these institutions is that they would operate at a lower cost. The author cites two major obstacles to financial privatization. First, vested interest, for example reluctance on the part of the government as a result of loss of revenue from 'seigniorage', and the belief of some people, real or mistaken that they stand to loose from privatization.

The next chapter deals with the roles to be played by different institutions, for example western development agencies, private sector in the West and the LDC governments. It suggests that the private sector in the West can play an important role in the privatization programmes of the LDCs. For example western investment banks can handle stock issues and do the underwriting, management consulting and accounting firms can prepare the SOEs for privatization, while advertising agencies can conduct publicity campaigns etc. While the author's contention that the LDCs can gain from the privatization experience of the DCs is correct, the policy makers in the LDCs need to bear in mind that their privatization problems, are different from those of the DCs. Second, for privatization to have a full linkage effect on the economies of the LDCs, it is imperative that they use their own domestic institutions as much as possible. It is only where some expertise or facility is not available locally should they turn to the DCs.

In Part V John Redwood discusses the privatization experience in Britain, Ted M. Ohashi in British Columbia, Mehmet Bilgic in Turkey and Donald Shay in Grenada. Steve Hanke concludes that the reason why privatization has become so popular in recent years is because of the form it has taken, i.e., 'peoples capitalism'. The author warns against exaggerated enthusiasm that privatization will lead to increasing efficiency and declining costs. He says if public monopoly is replaced by

private competition it will have a favourable impact on the incentive structure, efficiency, savings etc. If however, public monopoly is replaced by private monopoly, privatization may actually end up increasing costs. And it is this conclusion of the author which offers a pessimistic prognosis for a country like Pakistan, where due to an underdeveloped capital market most of the SOEs are being marketed through auctions. For this implies that replacing public monopoly by private monopoly might have adverse consequences on the economy. Some steps therefore need to be taken by the LDCs governments that will ensure a competitive market structure.

On the whole the book is a good collection of papers dealing with issues that are of crucial importance to the LDCs undergoing privatization. It brings the thoughts and experiences of a large body of experts on the subject. The book offers many practical and sensible advices to policy makers for the pre and post privatization scenarios, and warns against exaggerated enthusiasm. It also highlights the conditions under which privatization might actually worsen the economic environment. The book is specially recommended to the over-enthusiastic policy makers in the LDCs!

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**Bina Agarwal, Cold Hearths and Barren Slopes: The Woodfuel Crisis in the Third World, (Zed Press, London, 1990), £.10.95.**

As a concept the "Environment" generates abundant passion. There are those who believe that our concern for the Environment should be primordial in our lives as it plays a central role in all modes of existence. This school of thought puts the Environment first, whether they deal with issues of development, industrialization, community participation, and even local and national politics. There is another school of thought which is not as enthusiastic about putting the Environment up-front before beginning any discussion on issues related to people and their social and economic development. For this school of thought, economic and political relations between people, nations and regions are more important, and issues related to the Environment need to be linked to these relations of power. The greater enthusiasts usually ignore class relations and talk of the Environment as a concern somewhere up in the air, outside of society.

Bina Agarwal has impressive credentials. She is one of India's leading economists who works at the Institute of Economic Growth, Delhi. She is also an active

and dedicated worker for women's rights and is equally concerned and involved in issues related to the Environment. This, her third book, deals with one aspect of the Environment, where she examines the crisis brought about by the depletion of forests and its effect on the use of wood as fuel. On the face of it, this theme may not enthuse most people, but it is the treatment by Bina Agarwal which bring it to life. Moreover, she writes exceptionally well and documents her arguments convincingly.

In some countries, such as Chad, Ethiopia, Nepal and Uganda, firewood and charcoal together provide 90 per cent or more of the energy used, while in most of Africa and in many Asian and Central American countries, the figure is well over 50 per cent. Most of the fuelwood consumed is, not surprisingly, in the rural household sector where it is primarily used for cooking. Wood is the most important source of energy, especially domestic energy, in much of the Third World. Thus its supreme importance. Another detail that Agarwal quotes which brings the whole issue in proper perspective is that in 60 years there will virtually be no forest left in the Third World. Thus the need to halt deforestation.

Agarwal has analyzed the growing social and economic costs to countries and households due to the increased use of wood fuel. There is the obvious consequence of flooding, soil erosion, the spread of deserts, all causing an adverse effect on agricultural production. In addition, there is a substantial increase in the time and energy spent, mainly by women and children in gathering firewood. In Africa, because of the extra time needed to collect firewood, daughters are now taken out of school to help their mothers, who themselves may have to forego employment opportunities. There have also been attempts to economize on woodfuel, by shifting from cooking two meals to one meal a day. Also, more nutritious foods which take a long time to cook (like beans) are now being replaced by less nutritious foods.

Given the infeasibility of using alternate fuels which are less accessible, there are essentially two broad solutions to the problem. The first is a more efficient use of wood itself, a better stove, or better quality wood. The second is an extensive reforestation programme which permits the use of wood as fuel, but at a lower rate than the rate at which trees are replaced. After an overview of the nature and the extent of the woodfuel crisis in the Third World, Bina Agarwal come into her own when she examines the possible solutions to the crisis.

Her ideological position is very clear: "the woodfuel problem emerges as part of the overall problem of poverty, inequality and rural development". And "inequalities in land and tree ownership in particular are found to be related closely to inequalities in the availability and use of woodfuel". As far as solutions are concerned, she argues that "their successful implementation depends on the degree to which constraints relating to the socio-economic structures of the communities in which the schemes are promoted can be overcome."

Over a hundred wood-stove diffusion programmes and numerous tree-planting schemes have been launched in the Third world in the last few years. Very few of

these schemes have worked, for they have not been located in the social or economic environment for which they were meant. As Agarwal says, "the promotion of stoves through a top-down approach with little attempt to seek the participation of the women who are the main users, is seen as the primary cause of failure of many stove promotional efforts. The rare success stories relate precisely to cases where women's involvement in designing and building has been sought by the persons promoting the stoves." She then goes on to give reasons why and how user involvement can help the successful diffusion of technology.

Tree-planting schemes also suffer from the top-down attitude resulting in failure, but the difference is that "the issue of access to and control over land is noted to impinge equally if not more strongly on programme success or failure." In forestry schemes "an initial unequal distribution in the ownership and control of land in turn becomes the source of unequal distribution of the benefits from the new developments as well." In villages where there was unequal land distribution attempts to promote community participation meets with severe difficulties, a fact which is often overlooked by people who talk about or for the "community." Agarwal concludes: "where inequalities are sharp, redistributive land reform may well prove to be a necessary precondition for community reforestation schemes to take root."

This book is one of the few on the topic which deals with the issues of the Environment located in a social and political context. It is educative and should be digested by the numerous Environment-friendly organizations and individuals who have got on to this fashionable band-wagon. Those who are minting money in the Environment-NGO racket, if they are sincere to their cause, will realize on reading this book, that it is not fancy offices and posh seminars that go towards solving the problems of the Environment, but a necessary condition is that they must understand and analyze the social, economic and political spectrum in which their work is supposed to exist. For them Bina Agarwal's book is specially recommended.

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