

Privatization in the Islamic Republic of Iran

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Introduction

EVER SINCE human societies were formed, people have always been under the influence of politics and economy, which have been shaped into state and market. A reasonable combination of these two has often produced favorable integration for countries. However, when balanced, statesmen have tried to bring more power to the state through “nationalization” or to strengthen the market through “privatization.”

An overview of the economic and political tendencies in different countries in the past three centuries reveals how this combination has been decisive and critical. After Adam Smith introduced the philosophy of “Laissez faire,” governments began to decrease their stake in the economy. This, together with the advent of the Industrial Revolution, gave rise to capitalism. But it grew so much that it brought about problems and caused some thinkers to call for the interference of governments in the economy. Consequently, all through the first half of the present century many state-run agencies were nationalized. Nevertheless, this move led to extensive bureaucracies, inefficiency, heavy loans, and disintegration of the economy which all caused a reaction against the “large state.” Finally, in the late 1970s and in the early 1980s privatization was taken up as a solution to economic problems (Motavasseli, 1994: 4).

Today most countries are practicing privatization, based on their political, economic and social features to achieve development. The developing countries understand that they need to make twice as much attempt in dealing with privatization, i.e., whether to adopt it or to rule it out.

Privatization is on the whole a change in ownership. Many definitions have been given for it, two of which are as follows:

- “It is a tool for improving the economic activities through strengthening the market provided at least 50 percent of the state shares are sold to the private sector” (Bessley, 1983: 1).
- “It includes methods which change the nature of relationships between public and private sectors, such as denationalization, selling state properties, deregulation and contracting products and services” (Kay and Thompson, 1986: 18).

Since privatization is a strategy or policy, it should always be applied to reach certain goals towards a balance between political and economic issues. It is true that in many instances the private sector is more efficient and that some countries have corrected their

economic structure through privatization. But these are not sufficient reasons for any country to practice privatization. Each state should examine the reasons for its economic problems within the specific contexts of the country because reasons and goals are different among nations. Generally the basic goal for privatization in developed countries is economic growth, but in the developing countries privatization is a reaction toward the increase in the size of the government (Motavasseli, 1994: 196).

The goals of privatization which the countries of the world take into consideration can make a long list. However, some have common strategic nature such as: decrease in government's activities and costs; producing competition in the market; increase in efficiency and effectiveness of state agencies; and transferring ownership in return for the control of the economy. Other goals are of secondary importance such as encouragement of participation; decrease in budget deficits; state loans; subsidies; number of government employees; and increase in market investments and state revenues.

The method with which privatization is practiced both in industry and services is another important element. Some methods include the transfer of ownership such as selling shares to the public or privately, selling the state's properties, private sector's investment in state agencies, etc. Others include no ownership transfer such as giving up the management of departments to the private sector or leaving the departments to the agency's personnel (Nassirzadeh, 1990: 121).

Privatization methods are decided with regard to the factors which affect them. These are of two types: some work at the macro or national level such as: the state's strategic goals, socio-political environment, national security, income per capita, industrial development status, characteristics of the private sector, etc. There are also some factors which rule over the internal environment of each agency including: type of industry, organization and size of agency, cost and benefit statements, labor relations, and productivity.

Iran's Experience in Privatization

Like many other countries of the Third World, the Islamic Republic of Iran began its extensive economic development in the 1960's and 1970's. The large oil income which was not based on a self-reliant production process caused heavy demand and threatened domestic products and services. At the same time, assembly factories were established and imports vastly increased.

After the Islamic Revolution was won, the problems caused by the imposed war, together with the international pressure on Iran, hindered development. In the early stage of the Revolution the new government had no choice but to nationalize certain industrial centers and found an almost centralized economy. At this stage the price of oil in the international market decreased and inflation grew while the size and number of government agencies continued to go up. Now it was felt that new strategies had to be formulated. Through the law of 1991 and the measures translated in the Second Economic, Social and Cultural Development Plan, privatization of state industries and services was introduced.

The Second Development Plan (1995-1999) contains the details of the objectives and rules of privatization, of which the more strategic ones are:

- Enhancement of people's participation;
- Transferring part of state economic development and administrative activities;
- Expanding and strengthening the stock market;
- Creating a secure environment for private investment;
- Attracting foreign investment into the private sector and the cooperatives;
- Reducing the size of government; and ;
- Privatizing state enterprises.

Along with this, the High Council of Administration made regulations regarding the privatization of service activities of state agencies. However, privatization has been practiced mostly in the case of government corporations (N.I.O., 1993, No. 4: 2).

Problems Encountered

Efficiency has been declared to be the main objective of privatization. Although privatization has been successfully achieved in some instances, it is perhaps difficult to judge if the whole program has been a success because few researches have evaluated the outcomes (Tabatabaee, 1993: 4). The following are the problems which the writer consider important enough to be studied in-depth in order to improve the planning of future activities of. privatization.

1. Some enterprises have been privatized due to inefficiency. Such "lame duck" companies are not successful even in the hands of the private sector. They should have been made efficient through better management before being privatized.
2. In any society there are those who reject privatization from among workers, government officials, intellectuals, etc. and each group has its own reasons. This is true with Iran, too, and the readiness of the public to accept this movement is under question (N.I.O., 1993, No. 9: 26).
3. Human resources of the company to be privatized are the most significant asset. The rules and regulations of this country are supportive enough of the redundant workers. In some cases such people have not been sufficiently compensated for their lost jobs.
4. There are examples in which enterprises are privatized and at the same time the government finances the investors who cannot afford expensive technology. Such policy may prove useful in some countries but it doesn't seem to be compatible with our native characteristics (N.I.O, 1993, No. 7: 20).
5. Privatization follows the law of supply and demand. If there are no eligible investors, the officials should not hastily offer stocks (Shams, 1993: 45).

6. Privatization should have begun at a small scale and with small enterprises. This could have given the decision-makers a chance to examine the outcomes and base their subsequent moves on them.
7. Government agencies which decide to privatize part(s) of their properties are supposed to handle the case by themselves. It is true that privatization is a technical economic endeavor and one should not expect any high-ranking official to be an expert in it. A central advisory committee is needed now to coordinate all the cases.
8. As it was noted before, the organization and size of government was one of the reasons that made privatization necessary in Iran. Now that this move has started, we need to have great control over the size and extension of state agencies in order to make privatization effective.

Conclusion and Recommendations

In closing, the writer would like to make some recommendations which at the same time can serve as a summary of what has been discussed.

Since the beginning of this decade, the Islamic Republic of Iran has chosen privatization as a development strategy. Privatization in Iran can be made more effective by:

1. Making the policies of privatization transparent to the public so that they can easily go along with the program;
2. Establishing a fully competent advisory committee for privatization all over the country;
3. Transferring, as much as possible, the management of enterprises rather than their ownership;
4. Stabilizing the economic environment and encouraging private investment;
5. Maintaining a balance between a free and a centralized economy;
6. Considering the native culture of the country in all activities of privatization;
7. Considering the distribution of wealth according to the Islamic teachings with regard to privatization;
8. Selecting policies and procedures which are most effective in the specific case of our country following a full research on them;
9. Evaluating the performance of privatization up to this point and applying the findings together with the experiences of other nations to future plans;

10. Improving the management organization and methods of enterprises before taking steps to privatize them;
11. Trying more to create substitute jobs, employment insurance, training, etc., for those who become redundant in the process of privatization;
12. Reconsidering the use of other methods of privatization such as joint venture, private selling, management contracts, etc., rather than sticking only to the stock market;
13. Liquidating non-productive enterprises and using their properties in more profitable ways, instead of privatizing them;
14. Giving more consideration to the cooperatives in the course of privatization; and
15. Keeping in mind that privatization is only one process of a large system and that it can be effective only if it keeps pace with other processes.

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