Committee: Economic and Financial

Topic: The question of state ownership of key industries

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Summary

A good resolution on must be an accurate representation of your country's policies on the ideal balance between state-ownership and privatisation. Additionally, a good resolution must not only advocate for a position but also incorporate actionable clauses that will help member nations, the Economic and Financial committee and the United Nations effectively implement the resolution.

One of the first steps to researching your country's policies is to investigate the balance between the public and private sector. Naturally, there will be more public ownership in more centralised economies than in more free-market ones. Try to find resources that evaluate the benefits and drawbacks of state ownership versus privatisation in your country. Furthermore, some countries may see the prescription of economic policy by an international body like the UN as a violation of national sovereignty – you should find out your country's position on this.

Whether your resolution is in support of privatisation, state-ownership, or takes a more balanced approach, it is crucial that it includes clauses which will enable member states to actually carry out the resolution effectively. In the case of a pro-privatisation resolution this might come in the form of a scheme to help member nations conduct audits to find saleable assets, whereas in a pro state-ownership resolution this might be the provision of consultancy to improve the quality of the government's management of state-owned businesses.

Definition of Key Terms

Public Sector – The part of an economy controlled by the state

Private Sector – The part of an economy controlled by independent citizens and not the state

Privatisation – The sale of state assets, such as a state-owned business, to a private owner

Natural Monopoly – A natural monopoly is an industry in which only one business exists because it is not possible to split the market between two or more businesses and have more than one business be profitable, so no more businesses will enter after the first

Positive Externality of Consumption – A positive externality of consumption exists when an individual's consumption of a good or service has an additional benefit to society as a whole as well as to the individual consumer

Negative Externality of Consumption – A negative externality of consumption exists when an individual's consumption of a good or service has a damaging effect on third parties outside of the business and consumer

Positive Externality of Production – A positive externality of production exists when the production of a good or service has an additional benefit to society as a whole as well as to the individual consumer

Negative Externality of Production – A negative externality of consumption exists when the production of a good or service has a damaging effect on third parties

Merit Good – A merit good is a good or service with positive externalities of consumption. Examples include healthcare and education. In a free market merit goods will be undersupplied as producers and consumers will not take into account the externalities when making economic decisions

Demerit Good – A demerit good is a good or service with negative externalities of consumption. In a free market demerit goods will be oversupplied as producers and consumers will not take into account the externalities when making economic decisions

Common Access Resource – A common access resource is a resource that everyone can use and access without paying for the right to use it. These are typically natural resources such as the oceans, forests or fish which are hard to exclude people from using

Third-World Debt Crisis – A crisis during the 1980s which came about when developing countries, due to the 1979 global recession, became unable to repay loans granted to them by commercial banks in the 1970s

Washington Consensus – A set of 10 guidelines for economic reform, including privatisation, promoted by international financial institutions which were developed in 1989 and targeted developing nations in economic crises

Neoliberalism – An economic ideology which promotes free-market/laissez-faire economics. In policy terms, this amounts to privatisation, deregulation, free trade, and reducing government spending

Structural Adjustment Programs (SAPs) – A policy used by the International Monetary Fund and World Bank which granted loans to developing countries on the condition that they would implement neoliberal economic reforms, which could include privatisation

Capital market failure – Is where private sector investors refuse to invest in high risk projects that have high returns long term, but possess a high-risk short term

Productive Efficiency – A business is more productively efficient when it produces the same good or service at a lower cost and thereby uses up less resources (resources include not only natural resources and machinery but also human labour) during production. For example, if a bakery has a better oven or more skilled bakers which allow them to produce bread at a cost of £1 per loaf, they are more productively efficient than a bakery which does not have these advantages and has a cost of £2 per loaf

Background Information

During the conservative governments in the UK in power from the late 70s to early 90s (led by Margaret Thatcher and later John Major), large parts of the public sector were privatised were privatised such as British Steel, British Telecom and British Petroleum. Ronald Reagan's government in the US also followed similar neoliberal policies. Following the Washington Consensus, the SAPs of the World Bank and IMF led to the spread of privatisation worldwide. Within the United Kingdom, the benefits of privatisation were felt short-term, but the long-term implications meant that the government had lost financial leverage. Although they would have generated an immediate revenue, the benefits that the state-owned industry possessed was lost.

Although the rise of privatisation has not led to unanimous agreement worldwide on the debate over private versus public ownership of industry, it has become clear that there are positives and negatives to both privatisation and state ownership of industry. Whether a resolution advocates for the private or public ownership end of the spectrum, to be effective it must be aware of the flaws with each method and take action to mitigate against them.

Disadvantages of State-Ownership

One possible flaw of state-ownership is a lack of productive efficiency compared to privately owned companies. Private companies are motivated to increase their profits, which could lead to them investing more time into finding ways to minimise costs which can subsequently lead to savings for consumers. Furthermore, privately owned businesses would be under pressure from shareholders to operate more efficiently and earn more profits, while a state-owned business would not have this pressure and may perform inefficiently. In some cases, privatisation can lead to increased competition which will further spur businesses to become more efficient – although this needs to be examined on a case by case basis. Moreover, there may be more bureaucracy involved in controlling state-owned businesses which will lead to greater in productive efficiency.

Another potential disadvantage is that when managing a business a government may be more likely to think in the short-term and invest in projects that will take hold before the next election and lead to an increase in votes, whereas a private business could be more likely to invest in long-term infrastructure projects, with their main interest being in financial return.

In the wake of the recent controversy surrounding the Chinese multinational technology company Huawei, concerns have been raised over whether state-owned businesses can present a threat to national security when they operate overseas.

A further possible disadvantage exists in the case of corrupt governments. In the case of governments with corrupt dictators or officials, state-ownership of industry presents an opportunity for these government officials to use the state's assets for their own private benefit.

Disadvantages of Privatisation

However, privatisation can be flawed when it results in industries with low competition, such as a natural monopoly. In these industries a private business would be able to increase profits by charging higher prices to consumers than they would do in a competitive market by exploiting the lack of competition. In these cases, consumer welfare would be of a greater standard and importance if the business was publicly rather than privately owned since a public business is less likely to exploit the lack of competition.

Additionally, privatisation can lead to an undersupply of merit goods. As discussed earlier, privatisation can lead to higher prices. These higher prices mean that there will be less consumption of the good or service as some consumers will be unable or unwilling to pay the higher price. When this happens with a merit good, such as healthcare or education, then society will lose out on the positive externalities of consumption that would have been gained if more people had consumed the good. In this situation, there is a case to be made for a greater degree of state control since a state-owned business would charge a lower price as long it is motivated by providing a benefit to society as a whole.

In the search for profits, private businesses may take actions that are detrimental to society as a whole. This can come in the form of negative externalities of production, such as increased pollution. Private firms will not factor the costs to society of their production and will thereby overproduce. It can also come in the form of the unsustainable use of common access resources such as fish stocks, forests and other primary resources. Because of the inability to charge for these resources and the absence of any punishment for overusing them, private businesses will overuse them and cause the depletion of the resource. State-owned businesses are more likely to consider /the impact of their actions to society as a whole, and thereby will act in a more socially desirable manner.

Obviously, this is not an exhaustive list of all the possible consequences of privatisation and state-ownership. Your resolution will be made stronger by undertaking further research in order to take additional effects into account and back up your arguments with real world examples.

Major Countries and Organizations Involved

The Bretton Woods Institutions: The World Bank Group and International Monetary Fund (IMF):

The World Bank group is a UN-affiliated organisation that provide grants and low-interest loans for development purposes to developing countries. They also support developing countries through policy advice.

The goal of the IMF is to ensure the stability of the international monetary system and thereby facilitate global trade. It does this in three ways. Firstly, it oversees the international monetary system, highlights risks to stability and suggests policy adjustments. Secondly, it can lend money to countries who are at risk of debt and thereby restore conditions for strong economic growth.

In the wake of the Third-World debt crisis, the Bretton Woods institutions introduced structural adjustment programs (SAPs), a scheme which would entitle indebted developing countries to loans on the condition that they reformed their economies to be more market-oriented. These SAPs played a large role in the global spread of privatisation in the late 20th century.

United Nations Department for Economic and Social Affairs (DESA)

As the name suggests, UNDESA is the UN body responsible for dealing with economic issues such as this. To this end, UNDESA published a detailed report titled “State-Owned Enterprise Reform” in 2007 which details arguments for and against state-ownership. Among other things, the report notes the widespread nature of SOEs and how even some of the most unsuccessful economies have them. It goes on to explain the reasoning behind there being state ownership and how sometimes it presents itself as a necessity, in that there is no other funding available for businesses and industries – yet their service is necessary and of importance.

Timeline of Events

Date	Description
4th Feb 1981	The first Thatcher administration begins to experiment with privatisation though the sale of 51.57% of its shares in British Aerospace.
Nov 1981	The Thatcher administration continues its policy of privatisation through the sale of 49% of its shares in Cable & Wireless, a previously state-owned telecoms company.

1982	Mexico becomes the first country to default on its debts as a result of the third-world debt crisis. It then becomes the first country to implement SAPs in exchange for loans and is followed by numerous countries in Latin America and Sub-Saharan Africa
Nov 1982	Britoil is privatised by the Thatcher administration
1st April 1984	British Telecom (BT) is privatised by the Thatcher government
July 1984	The Thatcher administration privatises Jaguar
8th Dec 1986	The Thatcher government sells off British Gas
11th June 1987	The conservative party wins their third consecutive election in the UK and implements their most aggressive privatise policy, firstly with Margaret Thatcher as Prime Minister and later John Major. This leads to the sale of British Steel, British Petroleum, Rolls Royce and British Airways.
1989	Concept of the Washington Consensus first presented by economist John Williamson. International Monetary Fund and World Bank begin to promote its adoption by developing countries from financial crises of the 1980s – especially those in Latin America.

Relevant UN Treaties and Events

The following treaties are referred to within the body of the text:

The implementation of SAPs by the World Bank and IMF

Washington Consensus

Previous Attempts to solve the Issue

As mentioned earlier in the report, privatisation became increasingly common throughout the 1980s. This was largely due to the implementation of the SAPs in developing nations attempting to recover from the third-world debt crises. These SAPs were generally in line with the Washington Consensus in that they promoted generally neoliberal and market-based economic reforms, including the nationalisation of state-owned businesses. However, although these reforms could have potentially led to growth in the long-term, they incurred large costs in the short-term which fell predominantly upon the poorest residents. These residents were excluded from access to essential goods and services due to post-privatisation price increases in goods that were previously government-provided or subsidised, such as education and healthcare. It has been argued that the potential long-term growth as a result of these policies does not warrant the immense hardships suffered by the poorest members of the society in the short-term.

Possible Solutions

One of the problems with the SAPs promoted in the past by international financial institutions (IFIs) is that they were broad prescriptions that did not give each member state enough scope to adapt the policies to the nuances of its own economy. In addition, the assumption that privatisation is appropriate for all industries is far too broad – often industries which provide merit goods such as healthcare and education should have a higher degree of state involvement as otherwise these goods would be undersupplied.

As such, a resolution should aim to implement measures that have the ability to adapt to the specific circumstances within each country. One way to do this is to implement schemes (such as supplying consultancy or auditing services) that would allow member nations to make better informed decisions about privatisation versus state-ownership on a case-by-case basis rather than dictating a general policy, that can result in financial turmoil. A resolution which promotes state ownership might introduce a scheme that provides consultancy to state-owned business to enable them to become more efficient.

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