Carnegie Council\DRT International Privatization Project

Privatization in a Capital-Short World

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Thank you very much. There is currently a lot going on with privatization , and it reminds me very much of what happened to the debt problem over the last decade or so. In 1982, Mexico faced the problem of default. Most of us in the international world of finance were extremely worried about what was going to happen to the world banking system. What actually happened was that a whole industry developed around the problem of international debt. For example, I switched from being the advisor to the Central Bank of Venezuela, worrying about how to invest their reserves, to quickly worrying about how to reschedule your debts. Now, in a sense, privatization is showing the entrepreneurial spirits of bankers, lawyers, and a whole cacophony of people that get involved in international finance; it's become an industry, and I semi-joke about this, but when you think about it, there's an awful lot of work going on in different parts of the world on privatization. It's become an extremely fashionable subject. But, there are some dangers in fashion. Let me go back and suggest privatization is in danger of becoming somewhat overblown. The model for much of privatization is what happened in my country. Mrs. Thatcher is not a lady given to self-doubt or to introspection, and when she came to the conclusion, quite properly, that the U.K. needed privatization, we went ahead at a great rate. But think, though, about the conditions in the U.K.: employment was high, the economy was growing rapidly, and in most of the industries that were privatized, excessive labor was not a great problem. It was clearly over capacity, but it wasn't a very serious problem, so you weren't inviting massive unemployment. The privatization program in the U.K. didn't have some of the macroproblems that the countries in Eastern Europe are facing, nor the political problems. Also, I think it is worthwhile mentioning that the areas that were being privatized, in the U.K., France, and other industrial countries, were in many ways the countries' Crown Jewels: state monopolies, telephone systems, electrical systems, power generating facilities. It's very different to privatize the Crown Jewels than it is to privatize companies where 70% of the economy is in the public sector. Very different, indeed, and I think it's worthwhile, in the enthusiasm for privatization, to remember that the U.K., and some of the industrial countries, are not necessarily a perfect example. The same thing applies in Latin America, where the private sector is much bigger than in Eastern Europe, and again, where some of the areas, like telephones, and particularly airlines, are ripe for privatization, and where the return on capital is going to be significant. But it doesn't necessarily apply to everything in the public sector that the governments decide are ripe for privatization, whatever the advisors, the bankers, the lawyers, and the various cacophony of advisors argue for investors. But one of the things that Mrs. Thatcher did, which I think is a model for privatization around the world, is she made absolutely certain that when privatization took place, no one could gain more than a small number of shares. Privatization was not for the fat cats. It was absolutely made clear to the merchant banks that distribution of the shares of U.K. companies that were privatized had to go to the small investor. That had a very important psychological effect in the U.K., in that we brought together into our economy a whole new range of investors holding shares in companies. That, I think, has been very important, the whole psychological change in the United Kingdom. For example, if we have a change in government, which I suspect we will next year, then you're not going to get a renationalization of those companies that were made private. Why? Because people like having shares. Those shares have done well. That's another thing Mrs. Thatcher did—at the time of privatization, the government pitched the price at a level that more or less insured that the price would go up in the stock market. That is possible in a developed capital market. It's also possible in a less developed capital market, but I do think it's important to make sure that the shares are widely spread, and also, especially during the first stages of privatization, to make sure that the price tends to go up, which, of course, increases the appetite for buying shares in companies that are privatized. I think those principles are worthwhile keeping in mind.

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Capital Shortage

Another area which I think is terribly important when one thinks about privatization, particularly in Eastern Europe, is that there is a capital shortage in the world today. International financiers argue about this a great deal. Is that a semantic issue or a real issue? I believe, as an international

banker, that it is a real issue; that capital is less available today than it was two years ago. Let me pick two years because 1989 was a very special year in terms of its national capital flows. For example, in that year, Japan exported just under $200 billion of capital, and Germany exported about $50 billion of capital. This year, Japan will export something on the order of $40 billion of capital, and Germany is now, if anything, a capital importer. That's a very large change in the availability of monies. At the same time, bankers have become much more cautious. Whether they are Japanese, American, or British bankers, they are much, much more cautious—they are not making the loans that they did a short time ago. You can argue: is there a credit crunch? No, for a major corporation there is no credit crunch. But, if you tried to borrow money to develop a commercial real estate property, whether in New York or London, you would find there's a very real credit crunch. It's the same for smaller companies. I touch on this because as capital has become more scarce for certain areas of business in the industrial world, the same thing applies in East Europe. East Europe is facing more competition for funds; more competition in general. Moreover, as far as I can see, equity investors are looking for a higher threshold return than they were a short period ago. Today, people in the equity markets are looking for a rate of return perhaps on the order of eighteen or twenty percent. If you're looking for a rate of return of eighteen or twenty percent in the United States or in the United Kingdom, then imagine what rate of return you would need to invest in a developing country, whether that be in East Europe or Latin America. The effect is that the demand for capital is there, but the supply is more scarcely available, and that's why the G-7 communique of two weekends ago laid great stress on the need for increasing the supply of capital. One way of increasing the supply of capital, which is going to be very important to East Europe, is changing economic management. Let me use the analogy of Latin America. Not only was it capital-scarce, but Latins themselves took money out of the country, in large measure because the economic policies of Latin America were not efficient—multiple exchange rate practices and high inflation and so forth. When Mexico, Venezuela, and others adopted more correct economic policies, the conditions began to change. Those countries would not have been able to attract foreign capital into the newly privatized companies without the correct background economic policies. What one can see now in Venezuela, where the telephone system and the airline system are being privatized, is due in part to the whole economy looking a lot better. And the same thing applies to East Europe.

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There's also a new area of competition for East Europe, nobody knows how it will actually work, but it's worth mentioning, and that is the USSR. It is becoming an associate member of the IMF and the World Bank, and there will be significant demands for capital from the USSR. And, of course, the USSR, for many people, is a big magnet, with great opportunities, a big economy, and so forth. Jeffrey Sachs argues that the USSR will require $30 billion a year of capital. That's a great deal of money. If there is a limited amount of capital anyway, then some portion of that is going to go to the USSR, and whether it comes from the World Bank or the IMF, it means there's less for someone else.

Financing Eastern Europe

Let's go on, now, to something for this particular occasion, which is that the Group of Thirty is launching a new study today. The Group of Thirty, looking at Eastern Europe, has decided to form a study group, consisting of representatives from the World Bank, the IMF, the European Bank of Reconstruction and Development and so forth—as you see, a blue-ribbon group—to try to come to grips with this problem of financing East Europe: How big is the problem, and where is the money going to come from? I believe this is the first systematic study of the subject; it's called "Financing Eastern Europe." The conclusion of the report is that over the next two or three years, the growth prospects for Eastern Europe —which excludes Germany and the USSR—are indeed very modest. In fact, most people feel that the growth in output will be negative this year and next; will reach equilibrium in 1993; and then will gradually begin growing. However, the account deficits will continue to be very significant. The reason for

Left to right: Audna England, Carnegie Council; Alan Stoga, Kissinger Associates; Robert Dowling, Business Week*; Robert McPhail, DRT International; and Geoffrey Bell.*

this is that the trade balances are more or less in equilibrium, but the interest payments in most of the countries in Eastern Europe will continue to be significant. That is why people argue for the need for debt relief, particularly for Poland, and also for the other countries, which is a tricky subject. Governments introduce debt relief, and suggest that the banks follow suit. Bankers are not quite as keen on debt relief as are government officials, because it comes out of their own balance sheets, and out of their own shareholders' funds. Nevertheless, it is quite clear from this study that there is a need for debt relief; the question is how to marry debt relief to getting new monies, because there are governments, like Japan, that feel that if they are being asked to make a big sacrifice in reducing their outstanding loans, then how can they go to their taxpayers and ask them to put forward new monies to those same countries? Looking at all the sources of funds, private and official, what comes out of our study, without a shadow of a doubt, is that more than 80% of the funds that East Europe needs to grow over the next few years has to come from official sources. The private sector, while not insignificant, is going to be small. We forecast that over the next five years, private, longer-term funding is going to be on the order of $16 billion. That's very small, and will come from equity investment, foreign direct investments, and so forth, whereas, over that same period, official lending is going to be well over $50 billion. So the World Bank, the IMF, and the European Bank for Reconstruction and Development will have to play major roles in making longer-term funds available. And of those institutions, the World Bank will be perhaps the most important. Last year the World Bank committed $3 billion of new funds for Eastern Europe. That's not an insignificant sum of money, but it's also not the sort of flood of funds that some people have talked about. The same thing applies with the European Bank for Reconstruction and Development. It has capital of $12 billion, which will grow bigger and bigger as its balance sheet expands, although today, the amounts of monies that are being dispersed are very small. For example, the estimate is that the European Bank will disperse less than $100 million, for the year ending this year. Next year, the expectation is that it will disperse possibly less than $500 million dollars in all the countries of East Europe. In other words, it's just getting going, and the money is going to be relatively modest. The point I'm trying to get across is that the private sector, while important for East European financing, is going to be relatively small; most of the money has to come from official agencies. And here we have a connection with privatization: clearly, the more successful privatization is, the more will be the inflow of private money; perhaps working along with official money as well. Now, in typical merchant banking fashion, I've syndicated today's task in talking about East Europe, and have asked Charles Taylor, the Executive Director of the Group of Thirty, to talk about actual privatization in East Europe.

Privatization in Eastern Europe
(Charles Taylor)

Thank you, Geoffrey. I hope as a syndicate partner I'm taking slightly less of a risk, but I can't refrain from one comment regarding the capital shortage. As an economist myself, with friends at the IMF, I can report that they are struggling with the question of capital shortage, because, as you know, the balance of payments in all the countries of the world should add up to zero. Over the past several years, there's been a fluctuating statistical error, which shows their inability to get it to add up to zero, and over the past year or two, they've been quite glad to have a statistical error, because as the U.S. continues to import capital, Japan exports less, and Germany has switched to being an importer, the only place they can fund from is the statistical error.

> **"Privatization programs in Eastern Europe are very, very different from programs elsewhere in the world because over 60% of the productive sector has been state-owned."**

Now, to focus strictly on privatization programs in Eastern Europe, they are very, very different from the programs anywhere else in the world, because such a large share—over 60%—of the productive sector in Hungary, Poland, and Czechoslovakia has been state-owned. They are very different because they are the centerpiece of historic transformation from communism to capitalism; the situation in the three countries is obviously similar in that respect. It's also similar in that they face common obstacles—weak or nascent legal systems; problems establishing something like Western-style accounting practices and standards; and equally, management practices that leave much to be desired throughout the economies. They have, in fact, taken some similar steps: all of the three countries have set up agencies that are responsible for privatization, and all of them have privatization laws in place. One of the major problems that they all also share is the difficulty of evaluation. Evaluation is a tricky problem in the West; it's doubly so where there have been no market prices with which to gauge the true worth of inputs and outputs, or assets and liabilities, and even if there had been, the accounting systems are so peculiar, that one would not be able to infer easily what the historic worth of the company had been. Faced with enormous structural changes in the opening up of these economies, it would be—even if you had good accounting, even if you had good prices—a leap of faith to try and gauge what the market value of many of the public-sector

> **"But if the will to do these difficult privatizations in Eastern Europe does erode, it will set back the reform process overall."**

enterprises would be in the future, given the new competition which they'll face. That actually brings me to an important distinction which we should bear in mind, that quite obviously the natural monopolies in these countries are in some respects easier to privatize and have clearer market worth. An airline which has landing rights has something that's going to be of continuing value. One wouldn't buy it for its Ilyushin jets, one wouldn't buy it necessarily for its stock, but if it has landing rights, one can anticipate that people want to go on flying to a particular place, and that's a reason to have something to do with it. So the natural monopolies will be relatively easy to price and sell, while those firms like manufacturing will be relatively difficult.

The three countries also have differences between them, a major one being their differences in strategy. Basically, the big contrast is between Hungary, which has eschewed a voucher system, and Poland and Czechoslovakia, which adopted it. Poland is setting up a series of unit trusts, which will be responsible for almost the entire management of the voucher system, that is, the individuals will buy into the unit trusts, and the trusts will buy into the privatized entities. In Czechoslovakia, there will be some unit trusts, but there will also be a lot of direct purchasing of shares by individuals. The Hungarians, on the other hand, are simply trying to sell properties commercially; they're more open about where the sales are initiated. If you're an investor from abroad and you want to buy something in Hungary, you go and tell the State Property Agency, or you go and try and crack a deal with the management and then tell the S.P.A. what you're thinking of doing, and they say "okay," or "let's have another bid," or they act as the regulator, but they don't have to initiate anything. Things are moving much faster in Hungary as a result. The Czech scheme is supposed to get into top gear early next year. The Polish scheme will probably move a little bit slower, though today's news suggests that they've crossed one important hurdle, in making some key decisions about how to simplify the voucher system, and how to manage it. But still we're looking to 1992 or 1993, in the case of Poland and Czechoslovakia, for really getting moving. All of them are doing quite well at privatizing very small enterprises: corner shops, small hotels and the like are being sold off by local government, and, in fact, in that regard, Hungary's slightly behind the other two.

How are they going to go? Are there going to be any slip-ups? I'm sure there will be. It's an enormous task in the Polish case. Just imagine the problem of creating a register for the state-owned enterprises, with twenty-odd million potential shareholders, and a thousand or so enterprises. These registers are going to be as large as any registers in the West, probably larger than all, except perhaps British Telecom in the U.K. I understand that when they were looking around for good lists of individuals in Poland, they looked at the Social Security system and they found a reasonably good list there; then they looked at the tax system and found almost no list there. The best list they could find was with the Internal Security Police. So you even have the significant problem of identifying who your adult citizens are, and then constructing a database of them, and using it in appropriate ways; that's an immense management information system problem. So I don't think we should expect these things to run smoothly. However, I would say that there's obviously a high degree of political will, and at least the process is underway; three years ago we wouldn't have expected that. The will may be eroding in some of these areas, however, and in our report one of the points we make, very strongly, is the case for being as quick as possible. But if the will to do these difficult privatizations does erode, it will set back the reform process overall. Privatization is very important to the overall process of structural adjustment and stabilization in those countries. ■

Donald Nicholson II,CARESBAC (left), speaking with Geoffrey Bell.

Left to right: Roger Kubarych, Henry Kaufman, Inc.; Alan Stoga, Kissinger Associates, Inc.; and Charles Taylor, Group of Thirty.

Questions and Answers

Q I have two questions. The first is, what industries, if any, should not be privatized? The second is how do you, as a British banker, see the competitive situation between the demands for money for East Europe and the Soviet Union on the one hand, and Latin America on the other?

A **GB:** There is a competition between the two in the sense that there is a limited amount of capital in the world, and capital goes to the areas which you think have the highest return. I also think there is big competition for investors to feel the economy is well-managed instead of state controlled, and there will not be a return to state ownership. That, I think, is a terribly important change that I see in Latin America but is not quite so evident yet in East Europe. In the case of Mexico, President Salinas, following or even taking further the policies of his predecessor, Mr. De la Madrid, has given people the feeling that the dials are set for Mexico, that there's not going to be a reversion back to statist interventions. In the case of Venezuela, the leader of the opposition party has pledged time and time again that the policies of the current president would not change in the next administration, if he leads it. I think that's terribly important, and for Eastern Europe, it does increase the competition. The other thing, of course, is that competition reflects itself. Latins have significant amounts of external assets, and what you begin to see now, in many of the countries of Latin America, is a significant return flow of funds. And if one sees Latins themselves investing in their own countries, then you get more confidence from external investors, co-investing alongside. That's more difficult in the case of East Europe, because they have less external funds. But again, it's not just Latin America that is the competition for East Europe, every domestic economy is competition for their funds overseas. And that's why I think what will happen is that the momentum will start slower and will gradually build up. There's a lot of talk about everybody running around, setting up funds, but the Hungarian fund, for example, has a relatively smaller amount of actual investments that are taking place. It's the same thing with most of the international funds that have been established. What has happened is that the apparatus is being put into place, so investments can take place, but now you have a sense of disappointment: you can't value, you can't find decent investment, as it were, so it's going a little more slowly than anticipated.

What I think will happen, just as it happened in the last decade in Mexico, Venezuela, and Colombia, is that, first, expectations will be disappointed. The next thing is that economic policies gradually will become refined; the private sector will become more important, because it's better managed; and then the World Bank, IMF, the Bank for Reconstruction, will get things going. Then the bankers will come in and co-finance it. Bankers are not going to go in with their own credit, they just simply will not do that. They did too much of that in other parts of the world and lost a great deal of money. But, sooner or later they go in, by co-financing, then the private sector investment begins to accelerate. The big thing is not to expect too much. I think our study would suggest that while the amounts of money are not insignificant, they're very different than some of the wild figures that people have been talking about. Once you get a realistic level of likely inflows, you avoid some of the disappointments. The last point on this: West Germany will pump $100 billion into East Germany this year, a country with 17 or 18 million people, and yet, even with $100 billion they still have problems. You have to be realistic about East Europe. The problems of growth and of adjustment, are going to take longer than most people expect. And what that usually means is that the official institutions will have to play an important part, at least in the early years.

CT: Just a quick response on what you can privatize—it depends on your objectives of privatization. The Hungarians are concerned about making a fair amount of money out of their privatization; they have an economic objective of moving as much as possible into the private sector, for the sake of more efficient management. I think the government and the population look upon this as a technical issue, by and large. In contrast, in Poland, it's a very political issue, and a very emotional one. Forty or fifty years of communism have been used through the sweat of the people to build up state assets which now have to be redistributed to the people. The idea is that it's a way of returning to people what is truthfully and honestly theirs. Czechoslovakia is somewhere in between. That, therefore, has implications for what's successful privatization in different people's eyes. From a financial point of view, where one wants to make money, I think the Hungarians are most clearly showing a willingness to consider, among what they would call successful privatizations, a privatization that results in a liquidation. They say the important thing is getting it out of the state sector and if it survives and thrives, that's fine, but if it has to be closed down, so be it. I'm not sure they've got the same preparedness in Czechoslovakia.

GB: I would like to add one extra point about the problem of debt. The debt problem in Latin America was indeed a great burden, and there are all sorts of arguments of how debt forgiveness was the root of the solution, such as with the Brady Plan, in Mexico, whereby the U.S. government simply pushed bankers to give concessions and discounts. What is happening now is that as bankers have worked out deals with most of the Latin countries, possibly even with Brazil, it has engendered a lot more confidence for bankers to put monies back. The price of debt of most of Latin America has gone soaring in the last eighteen months. Now, the same thing, I suspect, can happen in East Europe. What is interesting is that Poland has used governments to give significant discounts and

governments are trying to force the banks to do the same, so perhaps, á la Brady, something could be done. Hungarians are well aware of this. Hungarians have kept their debt curbed, and they've been able to attract more private-sector money. There is a balance here, between how you deal with the problem of external debt and how you attract more money. I think this debt issue for East Europe, properly managed, means the free market can usually work—the bankers will work out something with the governments, even if it costs them a lot of money, and that, it seems to me, can actually create the atmosphere which will engender private sector investment.

Q Is the competition for funds played out strictly in economic terms, or will there be some political considerations as well?

A GB: The answer is clearly yes, that to a degree, there are political considerations. The EBRD is, indeed, a witness to the politics. Mr. Mitterand persuaded President Bush and everybody else to go along, and it's a very significant operation and it will soon have a balance sheet rivaling most banks. The problem is that under its statutes, the European Bank was supposed to invest 60% of its funds in the private sector. It's already having difficulty doing that, and there's no question in my mind that that 60% is going to be reduced, and you're going to see more and more monies from the European Bank going into the public sector. There's been a rather unseemly row in Washington about increasing the capital of the International Finance Corporation, which now looks as though it is going to be resolved fairly soon, and so the IFC will get a capital increase, a not-insignificant portion of which will be used for East Europe and the World Bank's commitments will clearly grow. So I think what one senses with all governments—perhaps the U.S. Treasury in this case is a little bit slower to come to that conclusion than others—is that the multinational institutions have to play the critical role, and that is political to a degree. In a way it's kick-starting, and I think that's the appropriate thing for developing countries. Kick-start them, and then let the private sector take over in due course.

Q With the slow rate of privatization, won't the East Europeans who are accustomed to cradle-to-grave socialism—full employment, subsidized housing, etc.—become impatient as living standards continue to erode, and won't this lead to more instability in the region, and possibly make it difficult to attract private investments?

A GB: One of the principal recommendations of our report is that they should accelerate reform. The economies of the region, leaving aside Yugoslavia, are contracting, for several reasons: Because of the collapse of Soviet trade; because of the change in the terms of trade within the CMEIA, which are very disadvantageous to them; and because of the disruptions caused by all the domestic transformations that are underway. The danger is that the political leaders of the countries in question will get the blame for all of the problems, and they'll find it very difficult to sustain the political will to get the whole job done if it's drawn out slowly, and so we advocate acceleration of reform, There's a strong political will not to return to communism per se, that's clear, but there's a lot less understanding of what will be entailed in reaching capitalism. The other point I'd make is that all of the countries in question have for some time now been working on building or strengthening existing safety nets. They're very well aware that, having had cradle-to-grave security, they can't let people just fall off. But I think the nets are being designed on a shoestring budget and are set very low.

Q If we start with the assumption that the available capital for investment is fixed, I think it would be difficult to talk about shortage of capital. I will submit that the shortage we might have is management. Capital will respond to opportunities, to risks and rewards. What I believe might be part of the solution is trying to change the borders of capital in countries and allow savings and pensions to move overseas and start taking advantage of the opportunities. Would you care to comment on that?

A GB: As I mentioned in my prepared remarks, capital shortage is a very contentious issue and you can argue it either way. Clearly there's not a fixed amount of capital, but what I would argue is that borrowing is much more difficult for many companies today than it was a few years ago. As I mentioned, the Japanese capital market, in international investment, is considerably smaller today than it was a few years ago. I managed to sell my bank to a Japanese bank three years ago, but I'm not quite sure I could do it today. That's also the case in Germany. You've got change in the direction of capital. Real interest rates are high today; the long bond in the United States is eight and a half percent and I think the long-term inflation rate is four percent, certainly no more. In Germany, your long-term rate is nine percent, the long-term inflation rate is between three and four percent, and in the United Kingdom the interest rate is ten percent, and our long-term inflation rate is no more. Real interest rates are high and are going to stay high. So if you can get a real interest rate of four or five percent on a risk-free investment, where there is no exchange risk because you can cover it in the exchange market, then the immediate rate of return on capital has increased, and I think that's indisputable. That may change in the future, but at this minute, that's my point about capital. One of the points about the G-7 communique from the finance ministers, issued last weekend, is to increase the amount of capital. One way is to cut budget deficits, then there's more capital for the private sector. But it would be foolish for people to believe that capital is still freely available, because that leads to disappointments. So recognize that capital is constrained and the expected rate of return has

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got to be significant, then the capital will go in. But the first thing is that in developing countries, which East Europe is, today most people in the private sector want to go in slowly and would prefer to go in with a major multinational institution, or in a joint venture with a powerful partner, because then you disperse the risk.

CT: Also, the sums that we talk about are intentionally modest. When you look at the net flows, they're extremely modest for this region. And yet we see accelerated reform, with potential for significant growth toward the end of the five-year horizon. The main reason we see that is not because of the increase of nine to ten to twenty billion in funding over the period that goes with accelerated growth, it's because of the domestic changes that occur with accelerated reform. These countries have very high savings rates; they've just had inexorably bad mobilization of capital and resource allocation. Their financial systems have been terrible. In the aggregate, they've been poorly structured; in detail, they have been very poorly managed. You are right that it is a question of management, in a sense, because there's a lack of expertise in the financial system to do the simple credit functions of a credit officer, to do an appraisal, to understand even the basics of how you would set about assessing the quality of a project or arranging its financing. Financial reforms have been a very big priority. The domestic savings are there, but they've been very inefficiently used.

Q I would like to make three points: one is that in the rush to privatize, there is a tendency to totally ignore the issue of management, especially for in-between size companies. In in-between companies, where evaluation is a big issue, you find management is also a big issue because if you privatize, and you don't think about how you are going to improve management or what kind of management oversight you are going to have, then that could be a major problem, because the fundamental assumption of privatizing is that privatizing will improve the efficiency and productivity of the company. The second is that the distribution of capital shortage has changed from country to country, and thirdly, the real issue may be a credit worthiness problem, not capital shortage.

A GB: I obviously can't disagree with the point about credit worthiness, and maybe that is a semantic point. The point I'm making is that a lot of borrowers that were able to borrow monies a relatively short while ago can't today, or find it much more difficult. And to the borrower, that is a capital shortage, whether you call it a credit shortage or whatever you call it—you can't do things that you previously wanted to do. That doesn't mean to say that monies aren't available elsewhere. One point about management is that not everybody can manage a corporation very well, or manage a private enterprise. But it seems to me that if you privatize then you actually get a different form of surveillance than you had in the previous regime. And therefore it's still worthwhile to go that route, because I believe that you'll get a little more pointed pressure to improve than you did in the old system, whereby the bureaucracy in the state capitals would forgive and would pump monies in. I think there is an instinct for survival, and so I would still go along with the point about going through with privatization. The other point, which is what you've seen in the U.K., is that the more you privatize, the more difficult it is to undo it, and therefore, a new government—even one of different political persuasion—finds it quite difficult to re-nationalize enterprises, and that I think is something which is a longer-term benefit of privatization, to reduce the role of the state. ■

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