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INTELLECTUAL ORIGINS OF PRIVATIZATION MOVEMENT

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ÖZET

Özelleştirme, 1980'li yılların başlarından günümüze pek çok gelişmiş ve gelişmekte olan ülkede ilgi gören bir akım olmuştur. Keynezyen iktisadın başarısızlığa uğraması ve özde Klasik İktisadin temel ilkelerine dayalı yeni iktisat teorilerinin (başlıca; Monetarizm, Rasyonel Beklentiler, Kamu Tercihi, Arz-Yönlü İktisat ve Libertarianizm) geliştirilmesi özelleştirme akımının doğuşunda önemli rol oynamıştır. Bu çalışmada yukarıda belirtilen iktisat teorileri ve politikalarının özelleştirme konusundaki yaklaşımları incelenmektedir.

I. INTRODUCTION

Privatization has become a popular movement throughout the world in the last decade. Both developed and developing countries have shown a great interest in privatization. Furthermore, recent sweeping changes in the Russia and Eastern Europe have revealed that a command economy is not desirable anymore, and reform movements have indicated that they realized the superiority of a free or noncoercive economy. The purpose of this paper is to examine the impact of several newly developed economic theories and policies on the privatization movement throughout the world.

As known, Demand-Side Economics (Keynesian Economics), which dominated economic policy after the Great Depression, failed due to economic problems, which arose during the late 1960's and early 1980's. Demand-side economics focused on the importance of goverment interffrence to achieve certain goals especially; promation of economic growth and development; an equitable distribution of income and wealth; efficient allocation of economic resources and stabilization of economic activities. Keynesians believed that the government should implement economic policies which assure economic growth and development. It was alleged that both growth and development could only be achieved by

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rational fiscal and monetary policies. Kaynesians also assumed responsibility for altering the composition of income and wealth distribution in society. They focused not only on personel income distribution, but also on functional and geographical income and wealth distribution. Government, it was advocated, should implement a "redistribution policy" to attain an equitable and just income distribution among individuals, producer groups (entrepreneur, worker etc.) and among the regions of a country. In order to mobilize effective demand to reach the full employment level, taxes and transfer payments were accepted as the major tools of a redistribution policy.

Keynesians also advocated that government should adopt policies that assure stabilization of economic activities. Stabilization encompasses both full employment and price stability. They believed that the government can play an active role in correcting any fluctuation in the employment and general price levels by implementing fiscal and monetary policies. And finally, government was to assume the duty to allocate economic resources, both in the private and public sectors. It was believed that governmental regulatory policies for this purpose would create allocative and productive efficiencies.

Excessive governmental interventions in the economy due to the implementation of Keynesian economic policies after the Great Depression, resulted in numerous economic problems in many developed and developing countries in the 1960's and especially in the 1970's. The growth of government expenditures necessarily raised the tax burden, which caused to low economic growth and productivity crises in many nations. Increasing government expenditures not only resulted in higher tax burdens, but also a heavy debt burden at the national level. Moreever, increasing public debt necessitated the raise of the tax burden of future generations and caused inflation souring in many nations.

In contrast to Keynesian Economics, "stagflation" became the major economic phenomenon of 1970's. A combination of hyperinflation and unemployment took place simultaneously in many nations and was later named "stagflation". Many economists argued that in addition to the two oil crises which occured in the 1970's, expansionary economic policies of Keynesianism were the main source of stegflation. Philips, with his empirical study (Philips, 1958) explained that there was a trade-off between inflation and unemployment when Keynesian fiscal and economic policies were put forward.

In the late 1970's, new economic theories based on the laissez-faire princip'` of cl: sical ec nomics, which included Monetarism, Rational Expectations Theory, Public Choice Economics and Supply-Side Economics, criticized demand-size economics and offered new solutions to prevailing economic problems. All of these theories claimed that big goverment destroys both political and ecomomic freedom. These theories suggested a privatization policy to restrict the roles and the functions of the government in the national economy and to foster and initiate a free market economy.

Before explaining these theories and their contribution to the privatization movement, it would be appropriate to review Adam Smith's view on privatization. Smith, who is accepted as the founder of Classical Economics and the father of Modern Capitalism, has played an important role in the development of new economic theories. In the following, I shall first explore Smith's views on privatization . After that, the impact of new economic theories on privatization will be analyzed.

II. ADAM SMITH'S VİEW ON PRIVATIZATION

Smith advocated privatization more than two hundred years ago as a means of eliminating waste and maximizing the value of assets. Smith's views on privatization can be found in his famous work, the Wealth of Nations.

Smith believed that there ought to be only three duties of the sovereign (government). He wrote:

"The first duty of the sovereign, that of protecting of the society from the violence and invasion of other independent societies can be performed only by means of a military force.

"The second duty of the sovereign, that of protecting, as far as possible, every member of the society from the injustice of oppression of every other member of it or the duty of establishing an exact administration of Justice requires too very different degrees of expence in the different periods of society." (Smith, 1976; 231).

He went on to say that:

"The third and last duty of the sovereign or commonwealth is that of erecting and maintaining those public institutions and those public works which though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expence to any individuals and which therefore cannot be expected that any individual and small number of individuals should erect or maintain the performance of this duty requires too very different degrees of expence in the different periods of society. (Smith, 1976;239)

The first two duties mentioned in the Wealth of Nations are clear enough: Government should protect its citizens from coercion by other nations or by the fellow citizens. This encompasses national security or national defense of a country and as well as a judiciary system of justice. However, the last duty of the government, noted by Adam Smith, is not clear and is open to various interpretations. A contemporary disciple of Adam Smith, Milton Friedman notes that "Adam Smith's third duty raises the most troublesome issues. He himself regarded it as having a narrow aplication. It has since been used to justify an extremely wide range of government activities. In our view, it describes a valid duty of a government directed to preserving and strengthening a free society; but in can also be interpreted to justify unlimited extentions of government power." (Friedman, 1980; 30).

As a matter of fact, Smith believed that the last part of the duties of a sovereign may be privatized. He subdiveded the last duty of the sovereign into two:

1. Facilitating the commerce of society, such as construction of roads, bridges, navigable canals, harbors etc.

2. Promoting the instruction of the people (education).

In the Wealth of Nations, we find the following notes on privatization:

"It does not seem necessary that the expence of those public works (roads, bridges, nevigabls canals etc.) should be defrayed from the public revenue, as it is commonly called, of which the collection and application are in most countries assigned to the executive power. The greater part of such public works may easily be so managed, as to afford a particular revenue sufficient for defraying their own expence, without bringing any burden upon the general revenues of the society. A highway, a bridge, a navigable canal, for example may in most cases be both made and maintained by a small toll upon the carriages which made use of them: a harbour, by a moderate port duty upon the tunnage of the shipping which load or unload in it." (Smith,1976; 245).

"When the carriages which pass over a highway or a bridge, and the lighters which sail upon a navigable canal, pay toll in proportion to their weight or their tonnage, they pay for their maintenance of those public works exactly in proportion to the wear and tear which they occasion of them,." (Smith, 1976; 246).

As understood, Smith advocated the use of tolls as a price of some kind of public goods. Smith also noted that the expence of education may also be defrayed by general contribution of the society, but better by fees and voluntary contribution. He wrote:

"The expence of the institutions for education and religious instruction, is likewise, no doubt, benefical to the whole society, and may, therefore, without injustice, be defrayed by the general contribution of the whole society. This expence, however might perhaps with equal propriety and even with some advantage, be defrayed altogether by those who receive the immediate benefit of such education and instruction or by the voluntary contribution of those who think they have occasion for either the one or the other." (Smith, 1976;340)..

In sum, we understand that Smith advocated the privatization of education and some public works by imposing a fee on users. Now, let us analyze the views of modern economic theories based on classical economics concerning privatization.

III. CONTEMPORARY ECONOMIC THOUGHTS AND PRIVATIZATION

As mentioned earlier, upon failure of Keynesian Economics, new economic theories based on laissez-faire principles of classical economics appeared in the late 1970's. These theoretical approaches can be categorized as follows:

1. Monetarism (Chicago School)

2. Rational Expectations School

3. Public Choice Economics (Virginia School)

4. Supply-Side Economics

5. Libertarianism (Anarcho-Capitalism)

Now, let's analyze the views of these theoretical approaches on privatization.

A. Monetarism

Milton Friedman, the comtemporary leading free market advocate and the founder of Monetarism, criticized government interference with the economy severly. Friedman defended a free market economy in his classic work Capitalism and Freedom. (Friedman, 1962) and dedicated himself to develop ideas to strengthen free market policies. Monetarism argues that government intervention should be restricted by controlling the money supply. As a matter of fact, Monetarism, as a political and economic doctrine, stems from the Classical Quantity Theory of Money. Monetarists, especially, analyzed the relationship between the growth of the money supply and inflation. Milton Friedman, in his study A Monetary History of the United States (1963) coauthored by Anna Schwarts, claims that the expansion of the money supply by a Central Bank increases the aggregate demand and thereby pushes inflation up. In other words, increasing private consumption and investment expenditures lead to higher actual and expected inflation rates (Real GNP being constant) and therefore to higher nominal interest rates. On the other hand, higher nominal interest rates lead to a lower money demand, more spending and more inflation. In the monetarist explanation of inflation, the inflationary process does not end until the Central Bank stabilizes the growth of the money supply (Ekelund and Tollison, 1986; 670-71.)

The pioneer of the Monetarism, Milton Friedman, continously wrote on his ideal Free Market Economy or in his own words, "Competitive Capitalism." According to Friedman:

"The scope of government must be limited. Its major function must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens; to preserve law and order, to enforce private contrasts, to foster competitive markets...By relying, primarily on voluntary co-operation and private enterprise, in both economic and other activities, we can insure that private sector is a

Check on the powers of the gevermental sector and an effective protection of freedom of speech, of religion and of thought." (Friedman, 1962; 2-3)

Like Adam Smith, Friedman also approved of government interference with the economy on a limited scale. He noted:

"The existence of a free market does not of course, eliminate the need for government. On the contrary, government is essential both as a form for determining the "rules of the game" and as an umpire to interprete and enforce the rules decided on." Friedman, in his well-known work Capitalism and Freedom justified only the following duties of government:

1. "Its (Goverment's) major function must be to protect our freedom... from the enemies outside our gates.", (pp.2), that is National Defense.

2. "The maintenance of law and order to prevent coercion of one individual by another. (pp.27.), that is judiciary.

3. "The enforcement of contracts voluntarily entered into." (pp.27.)

4. The interpretation and enforcement of property rights. (pp.27.)

5. Promotion of competition. (pp.34.)

6. The provision of a monetary framework. (pp.34.)

7. The Overcoming of neighborhood effects or externalities. (pp.34.)

8. Engagement in activities to counter technical monopolies (natural monopolies.)

9. Paternalistic activities for madmen and children. (pp.33.)

Beyond these duties, Friedman did not approve of govermental intervention in economy. He was also an advocate of the privatization of education.He wrote in Capitalism and Freedom, "(D)enationalizating schooling would widen the range of choice available to parents." (Friedman, 1962; 91.) He developed a **Voucher System** as a method of privatizating education. He explored this system in his work Free to Choose as follows: "One simple and effective way to assure parents greater freedom to choose, while at the same time retaining present sources of finance, is a voucher plan. Suppose your child attends a public elementary or secondary school. On the average, countrywide, it costs the taxpayer-you and me- about $ 2000 per year in 1978 for every child enrolled. If you withdraw your child from a public school and send him a private school, you save taxpayers about $ 2000 per year- but you get no part of that saving except as it is passed on to all taxpayers, in which case it would amount to at most a few cents off your tax bill. You hate to pay private tuition in addition to taxes - a strong incentive to keep your child in a public school. Suppose, however, the government said to you: "If you relieve us of the expence of schooling your child, you will be given a voucher, a piece of paper reedemable for a designated sum of money, if, and only if, it is used to pay the cost of schooling your child at an approved school" . The sum of money might be $ 2000, or it might be a lesser sum, say $ 1500 or $ 1000, in order to divide the saving between you and other taxpayers. But whether the full amount or the lesser amount, it would remove at least a part of the financial penalty that now limits the freedom of our parents to choose. " (Friedman, 1980; 160-61.)

B. Rational Expectations Theory

Rational Expectations Theory which emerged in the US criticized Keynes - ian Economics and its expansionary policies. This theory was developed in the 1970's by a group of ecomomists, notably Robert E. Lucas, Thomas J. Sargent, Neil Wallace. This theory is also based on Classsical Economics and focuses particulary on the inflationary expectations of individuals.

The Rational Expectations Theory challenged and amended the Adoptive Expectations Hypothesis, which claims that present price expectations about the future are adopted from the previous or the most recent prices. For example, if the inflation rate was 20 percent during the last year, individuals guess that the current rate of inflation would be around 20 percent also. Individuals can make systematic forecasting errors period after period. However, the point of departure for rational expectations is that individuals should not make systematic errors. This does not imply that individuals invariably forecast accurately in a world in which some random movements are inevitable; rather the assertion is that guesses about the future must be correct on the average if individuals are to remain satisfied with their mechanism of expectations formation. According to rational expectations economists, when uncertainty is absent and information complete, individuals make "rational" decisions and approach the "perfect foresight." (Begg, 1982; 29.) Individuals are rational in that they do not throw useful information away. After a time, individuals begin to understand the workings of the economy. Decision makers with rational expectations are not always right, but they learn over time, and are able to predict outcomes over the long run. The net result is that when the discretionary decisions of policymakers are perfectly anticipated, monetary and fiscal policy will have no effect on aggregate demand. (Ekelund and Tollison, 1986;693.)

In sum, rational expectations economists propose that goverment should only determine the rules of the game in the marketplace and then let the market forces operate themselves. They, like classical economists, believe that the market is able to solve economic problems automatically over time. They strongly oppose government interference with the economy.

C. Public Choice Economics

One of the major contributions to the development of the contemporary privatization movement came from Public Choice economists. Public Choice Economics, which has also been called "the Economic of Politics "or" Collective Choice Theory" deals with the issues of how economic resources are allocated by the political decision making process. In other words, public choice may be defined as the application of economic concepts, assumptions and tools to politics. The most important contribution of the Public Choice Theory to the econo - mics is that it developed a "Theory of Governmental Failure" as opposed to a "Theory of Market Failure" developed by Theoretical Welfare Economics. It has been argued that market failure, due to external economies, public goods, scale of economies etc. necessitates government interference with the economy. For many years, some economists have advocated government intervention in order to correct market failures.

However, it is only in recent years that public choice economists have argued that the concept of "government failure" also exist. By this they advocate government enacted policies produce inefficient and/or inequitable consequences as a result of the traditional behavior of participants in the political process. Public choice economists argued that the fact that the market is inefficient does not imply that government will do any better. (Browning- Browning, 1983; 74-76).

There are several sources of governmental failure,192 which I shall summarize as follows (Buchanan;. 1983, Gwartney and Stroup, 1979; 729-46, Wolf,

1979. Rowley, 1978., Peacock, 1980. Downs, 1960.)

1. Rational Voter Ignorance: Voters have imperfect information when they vote in the political decision making process. This ignorance stems from the lack of the education and varying cultural levels of the individuals in the society. Particularly in underdeveloped countries, some individuals living in the rural areas may not receive mass media services such as TV, radio etc. Obviously, these factors hinder to the attainment of a pareto optimal outcome in the elections.

On the other hand, information is costly, because acquiring knowledge takes time, effort and money. However, political manupulations (such as lying, overload information, misleading political advertising, propaganda, slogans, etc.) are all common in politics. (Davis and Mayer, 1983; 83)

In brief, the rational ignorance effect encompasses the following elements: (Goodin, 1980; 38):

1. Citiziens have imperfect information,

2. Citiziens know they have imperfect information,

3. It is costly to acquire and assess more information,

4. The expected gains from further information are thought likely to be less then these costs.

As a consequence of these factors, election results do not reflect voters' true preferences. This represents one of the deficiencies of the political decision making process.

2.Rational Voter Irrelavence: Individuals may not be interested in going to the ballot box because they know that they will get public goods and services even though they do not reveal their preferences by voting. In other words, they act as "free riders". A particular free rider problem occurs regarding the provision of pure public goods and services, such as the defense and judicial systems. Once a pure public good or collective consumption good is produced, it is equally available to all consumers. In other words, it is impossible to exclude some individuals from the availability and resulting benefits of pure public goods, In addition to this characteristic of a pure public good, which is called "non-exclusion', a pure public good is also indivisible. This means that the benefit of these types of goods cannot be parcelled out among different individuals. As a result of non-exclusion and indivisibility, voters may not reveal their true preferences if this good is produced by market. For example, if national defense were provided by the market rather then the government no one would be willing to contribute to its production, however everyone would benefit from its existence. For this reason, it is argued that markets "fail" to produce these goods. However, governments also "fail" because there is no self-interest or personel gain to the individual. Thus, there is no incentive to express their true preferences for the provision of these goods and services. Since voters are reluctant to reveal their true preferences, decision making in the politicial market is not optimal.

3. Rent Seeking : The efforts of special interest groups for rent seeking activities distorts the ideal economic efficiency in the public sector. Interest groups seek wealth transfers from government. Succesful interest groups win transfers at the expense of general economic efficiency. This is accepted as another source of "Governmental Failure." Politicians, in a vote-meximizing behaviour usually support the views of powerful special interest groups. Before election, political parties get campaign contributions from special interest groups. After election, they "award" rents in various form and /or they may enact "sweetheart legislation" in favor of them.

4. Logrolling: Logrolling is a term used to describe "vote trading" in the political decision making process. The main benefit of logrolling is that it enables representatives to register their intensity or preferences across issues. However, it may result in some costs at the expence of the economy. In the political decision making process, representatives support those projects whose benefits spread over his/her own elected region. That is, local interest sometimes may overcome national interests. When the representatives of different regions trade their support for each other's projects, they may impose a cost on the national economy. This form of logrolling is unproductive because national issues, which may be more beneficial for society, may remain unimportant. On the other hand, ministers and some powerful representatives of ruling parties are usually successful in shifting an important portion of the budget to their own constituency regions. This is called "pork-barreling" and obviously distorts the distributional efficiency.

5. Voting Mechanism : A unanimity rule is essential to attain a pareto-optimal outcome in the political decision making process. However, it is difficult to achieve a unanimous agreement. In our contemporary democracies, decision making in the public sector is based on majority rule. However, a simple majority rule in some cases does not always accurately reflect the preferences of all the voters. Consequently, majority rule is disadventagous to the minorities. This represents another "failure" in the political sector.

6. Shortsightedness Effect: Shortsightedness effect is another potential source of governmental failure. Politicians tend to implement policies whose benefits are largely current, and the costs are diffucult to identify by voters and are incurred in the future. In the reality of political life, we often see these types of public actions. In general, such behaviour by politicians results in political business cycles in time. Incumbent politicians, in order to maximize their votes and hence to be reelected, pursue expansionary policies which will also maximize the utilities of the voters in the short run. Shortsighted voters enjoy getting more public goods and services regardless of the sources with which they are financed. Therefore, politicians tend to increase public expenditures to create new job opportunities for their supporters, expand employment via overstaffing, reduce tax rates, increase the money supply, etc. These expansionary policies are pursued prior to election day. Immediately after the election, politicians have to fight to overcome the economic problems as a result of implemented economic policies before election. It would be necessary to raise the taxes, for example, to reduce the inflation rate, and budget deficits. (See: Nordhaus, 1975) In sum, politicians create economic problems and then try to solve them. This kind of political movement can be seen in the political arena frequently. Political business cycles are a result of shortsighted politicians and voters.

7. Government as an Inefficient Organization : Many empirical studies comparing the public sector, vis-a-vis private sector, concerning the delivery of public goods and services, concluded that the public sector is less efficient and effective. This happens because there is no direct link between the working effort of public employees and the gains derived from the provision of services. Although, little incentive can be given to individuals for public economic enterprises through an Employee Stock Ownership Plan (ESOP). Even under such a plan, the efficiency would not be as great as when the service is delivered by a private firm.

8. Imprecise Reflection Of Consumer Preferences : Collective preciseness is likely to be imprecise when reflecting the wishes of "consumers", because voters are usually forced to act through a broker (legislator) who represents a "bundle" of politicial goods and tax prices. The voter either gets the bundle of political goods offered by candidate A or the bundle offered by candidate B. Often, neither of these bundles of political goods represents what a spesific consumer does not have the freedom to "shop around" and buy some goods from any of several suppliers. He is forced to accept the bundle favored by the majority coalition. (Gwartney and Stroup, 1980; 731.)

D. Supply - Side Economics

Another contemporary economic thought, based on classical economics is Supply-Side Economics. This theory made a critique of the Keynes law, which means that "demand creates its own supply." In contrast, it defended the idea of "supply creates its own demand", popularly known as Say's law. This economic theory focused on the effects of fiscal policy on incentives and relative prices in order to provide high GNP and government re-venues. (Aktan, 1989).

Supply-side economists believe that the basic reason for the low economic growth in the 1970's was high tax rates. They claim that a tight fiscal policy decrease saving, investment and productivity levels in the economy. They remark that high taxes cannot reduce the effective demand in order to solve inflation. On the contrary, high taxes accelerate the inflation process.

Supply-side economists (supply-siders) offer low tax rates to increase economic growth and to reduce the rate of inflation. The main economic policy instrument of the supply-side economics is "tax cut". In the supply-side literature, tax reduction has mainly three functions:

1. Changes on the marginal tax rates affect the relative prices in four ways; (Keleher, 1982,111)

-The price of leisure versus work.

-The price of current consumption versus future consumption.

-Economic activities in the market economy versus activities in the underground economy.

-The return of investment in the taxable sector versus the return of investment in the tax shelters.

Supply-siders claim that a reduction in marginal tax rates results in high productivity, efficiency and high growth in the economy via changing the relative prices. Marginal tax rates are considered more important than effective tax rates in this theory.

2. The supply-side economics emphasizes "economic growth" and "efficiency of resource allocation". Supply-siders believe that tax cuts provide higher market output and higher tax revenues in the long-run. Indeed, supply-side theory is a long term economic policy. Supply-siders accept that "stabilization" and "fair income distribution" are not realized in a short period. These aims can be achieved only in a long time period together with economic growth and efficiency.

3. The third principal of supply-side economics is the connection between tax rates and tax revenues. According to this principal, tax rates can be increased up to a point.In other words, if taxes are increased beyond this point -called maximum revenue point- the process results in a inverse effect on the production and labor supply and consequently economic growth goes down and tax revenues decrease. Supply-siders accept that the reason for the slow economic growth in the 1970's in the U.S. and in the most of other countries is only high marginal tax rates. Supply-siders offer lower tax rates for fast economic growth and higher tax revenues.

Supply-side economists, like classical economists believed that government's role and functions should be limited and market forces should be streng thened in the national economy. Michael Evans, who developed an econometric model of supply-side economics noted that a balanced supply-side program consists of:

-tax cuts on both personal and corporate income taxes,

-a reduction in the amount of public expenditures appropriately with tax cuts.

-deregulation and privatization. (Evans, 1983; 19-20.)

E. Libertarianism

A more extreme form of economic freedom called "Libertarianism" became strong opponents of goverment interference. The central idea of Libertarianism is that people should be permitted to run their own life as they wish. As defined by John Hospers, libertarianism is a philosophy of personal liberty- the liberty of each person to live according to his own choices; provided that he does not attempt to coerce others and this prevent them from living according to their choices. (Hospers, 1971; 27)

According to libertarianists, "a government is an agency of legitimized coercion." (Friedman, 1978; 152) Libertarianists notably Murray Rothbard, Robert Nozick, David Friedman and Ayn Rand believe that government interference with the economy distorts both political economic and political freedom. Some extreme libertarianists, called anarcho- capitalists, go even further, saying that government is not necessary in society even in providing services such as defense, law and order etc. They argue that even those public goods may be privatized (Friedman, 1978; 155-64,, 185-97, Rothbard, 1982.)

David Friedman, a leading libertarianist, claims that without government, justice and defense against nations can be maintained through the market. David Friedman notes: "Protection from coercion is an economic good. It is presently sold in a variety of forms-brink guards, locks, burglar alarms. As the effectiveness of government declines, these market substitutes for the police, like market substitutes for the courts, become more popular...Suppose, then, at some furthertime there are no government police, but instead private protection agencies. These agencies sell the service of protecting their clients against crime. Perhaps they also guarantee performance by insuring their clients against losses resulting from criminal acts... It is reasonable to suppose that the quality of the service would be higher and the cost lower than with the present governmental protective system." (Friedman, 198; 156-57) He goes on to say that "In an anarchastic society, who would make the laws? On what basis would the private arbitrator decide what acts were criminal and what their punishments should be? The answer is that systems of law would be produced for profit on the open market, just as books and bras are produced today. There could be competition among different brands of law, just as there is competition among different brands of car ... In such a society, there might be many courts and even many legal systems... In such a society, law is produced on the market. A court supports itself by charging for the service of arbitrating disputes." (Friedman, 1978;159)

For the provision of defense services, Friedman also has some interesting ideas. He truely believes that even this pure public good can be privatized and he claims that several solutions could be applicable for the privatization of defense. He shared the views of Morris and Linda Tannahill's regarding the financing of defense services through a National Defense Insurance Company. Such a private institution can be established in different regions of a country, and insure ci-tizens against injury by foreign states. Another method to finance defense services without taxation is by contributions from charatible organizations. Friedman asserts that "it may be possible to defend a country against foreign nations by voluntary means." (Friedman, 1978; 196.)

Another pioneer of the libertarianism, Robert Nozick in his famous Anarchy, State and Utopia (Nozick, 1979) defended, an ultra-minimal goverment in which even law and order, defense, judiciary can be produced in the marketplace. We should note that Nozick's ideas, along with Murray Rothbard and David Friedman are entirely hypothetical.

IV. CONSERVATIVE CAPITALISM AND ITS IMPACT ON PRIVATIZATION MOVEMENT IN THE WORLD

There is no doubt that President Ronald Reagan played the major role in implementing some important reforms.The main elements of Reagan's economic policy were:

-Reducing the growth of government expenditures,

-Balancing the budget,

-Cutting the marginal income tax rates,

-Implementing a sound and stable monetary policy,

-Privatization,

The economic reform plan that President Reagan followed is called **Reaganomics** in academic and political circles. Reaganomics was a result of contemporary economic thoughts that we have explored in the previous section. As Bruce Kimzey noted:

"While Reagan has openly embraced the supply-side and monetarist theories as an integral part of his economic recovery plan, two additional economic theories are sometimes used to help explain President's program. While they have not been made a public part of the plan, the theories of rational expectations and the natural unemplayment rate are both related to the Monetarists arguments against an active fiscal policy to control short-run unemployment and inflation, and also seem to be consistent with the President's actions. Since all of these theories represent a departure from those used by earlier administrations, they can help explain why Reaganomics is viewed as a new aproach to the use of economic policy and the role of government. (Kimzey, 1983; 13-14)

Even though Reaganomics is most associated with the Supply-side economics, his economic recovery program included the main thesis of other contemporary economic thoughts, mainly, monetarism, rational exectations theory and public choice economics. (Kimzey, 1983; 13-18, Roberts, 1984)

Reaganomics was significantly emulated by **Thatcherism** in the United Kingdom. Margaret Thatcher's Conservative Party won the election in May 1979 and put forward very similar economic policies as those of President Reagan to achieve the same goals. (Aktan, 1988., 1985.,Ridhell, 1983)

Thatcher's privatization policy has been a showcase for the world. Following US. and Britain, many developing countries put forward policies to strengthen free market economy in their respective countries. Both Reagan and Thatcher began strong advocates of economic and political liberalism.

The Reagan and Thatcher economic and political reforms are named "**Conservetive Capitalism**". The phrase, Conservative Capitalism is meant to convey the essential meanings of the movements that have propelled Reagan and Thatcher to power. Both leaders have resolutely embraced capitalism as not only efficient, but as a morally superior form of political economies. Nevertheless, their version of capitalism differs markedly from that of their predecessors in both parties. They have sought to implement an explicitly conservative form of capita - lism, where the role of the government in solving the consequences of economic inequality is sharply reduced. The restoration of the marketplace is presented by Reagan and Thatcher as the nation's savior from the perils of too much government. "(Hoover and Plant, 1989;3)

Conservative capitalism has had influence over western and socialist countries. Some international organizations such as IMF, World Bank, Asian Development Bank, US. International Development Agency, etc. have supported the privatization effort of developing countries. Surprisingly, sweeping reforms in the Soviet Union and Eastern Europe have shown that those countries have finally realized the superiority of free market economy. In sum, contemporary economic thoughts developed by scholars in academia during last three decades and their reflection on the political circles, such as Conservative Capitalism in the USA and United Kingdom have been the major reasons behind the privatization movement.

Today, privatization has become popular movement throughout the world from Latin America to the Far East. Together with the Soviet Union, even Eastern European countries have been trying to achieve a free market economy.

IV. CONCLUDING REMARKS

As we noted earlier, privatization has been one of the major reforms in the world economy in the last decade. Surprisingly, not only industrialized countries -because, it is said privatization is more suitable for those countries- but ...so developing countries have become interested in this movement. Moreover, privatization has been a popular movement in the socialist countries as well. The important question is why have many countries in the world moved towards free market economy and to achieve this, have been implementing privatization as a major policy. As a matter of fact, the answer to this question can be attributed to the following issues:

-The failure of Keynesian Economics and the rise of new economic theories based on the principles of classical economics.

-The result of many empirical studies, which strongly concludes that private sector is more efficient and effective than public sector.

In this paper, we have only analyzed the newly developed economic theories and policies and its impact on privatization movement.

INTELLECTUAL ORIGINS OF PRIVATIZATION MOVEMENT (SUMMARY)

Privatization has become a popular movement all over the world since the early 1980's. Both developed and developing countries have shown a great interest in privatization. The failure of Keynesian Economics and the rise of new economic theories (mainly, Monetarism, Rational Expectations Theory, Public Choice Economics, Supply-Side Economics and Libertarianism) played an important role in privatization movement. This paper searches newly developed economic theories and its impact on privatization.

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