

An Investigation of Economic Effects of Privatization in Iran

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ABSTRACT

Privatization in Iran economy is one of the most economic subjects in academic debates. The aim of this paper is considering economic effects of privatization in Iran. This paper investigated the effect of privatization on economic growth and inflation in Iran. Estimation results indicate that there is not a significant relationship between privatization and economic growth. Also, privatization has a negative effect on inflation in Iran economy at 1960-2009 period.

KEYWORDS: Privatization, economic growth, inflation, Article 44, Public Sector.

1. INTRODUCTION

Article 44 of the Iranian Constitution stipulates that the country's economy should consist of state, cooperative, and private sectors. The privatization process in Turkey has been successful during the recent years due to adequate legislative regulations, regulations, macroeconomic stability, and political stability (Onur Ozsoy and Cengiz Yavilioglu, 2008). Craig and Amernic (2008), explore the importance of senior management discourse in the aftermath of a privatization. A narrative perspective is adopted, in which an imagined future post-privatization era initially articulated in accounting language is then told and retold as the post-privatization years unfold. The results of their paper emphasize the important features and role of accounting language and accounting-based performance benchmark measures in the narrative construction of the success of a privatization by corporate leaders. Craig and Amernic (2004), investigate that the potential for accounting to be implicated in constructing a "privatization mentality" and in persuading employees to accept a change in organizational orientation and culture. Their study finds that the language and technical features of accounting were exploited in the prelude to privatization to help sustain the economic wisdom of a privatization decision.

The proponents of the privatization used accounting strategically to justify and sustain the privatization. Major societal events, such as the privatization of national assets, merit close scrutiny so that an accounting world thus constructed should not be permitted to pass unchallenged (Craig and Amernic, 2006).

The performance improvement of privatized firms cannot be taken for granted merely by ownership change; instead, the performance gains of privatization could be realized only in concert with other institutional arrangements, including market openness, the modest and short-term bureaucratic control after privatization, and corporate health prior to privatization. Wu (2007), examines the variance of post-privatization performance outcomes by three institutional arrangements taken place in the process of ownership transfer in Taiwan. His research suggests an indispensable role of supportive policy measures, including market openness, post-privatization involvement of government and corporate reforms prior to privatization, in the performance effects of privatization.

Consistent with the idea that managers are particularly concerned about fiscal year earnings, Collins et al. (1984), Das and Shroff (2002) and Hayn et al. (2001) provide evidence that the characteristics of fourth quarter earnings differ from earnings for the other three quarters. These studies generally find that fourth quarter earnings exhibit higher volatility. Capital markets seem to recognize this—the preponderance of research has found lower earnings response coefficients for fourth quarter earnings relative to other quarters (Salamon and Stober, 1994).

While property rights theory clearly demonstrates that private enterprises should perform better than either enterprises in the state sector or enterprises with a mixed ownership, empirical evidence on the performance of enterprises with a mixed ownership is scarce and tends to concentrate on companies from regulated industries. In one of the rare studies, Boardman and Vinning (1989) analyze a sample of the 500 largest non-US industrial firms and demonstrate that private enterprises outperform both state-owned enterprises and enterprises with a mixed ownership. They explain this result by the conflict between private and public shareholders in mixed enterprises, which inhibits the monitoring of management. Consequently, partial privatizations may be worse than complete

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privatization or continued state ownership. Achieving earnings targets, such as avoiding losses, avoiding earnings decreases and meeting or beating analysts' forecasts has been extensively studied in the accounting literature (Burgstahler and Dichev, 1997; Degeorge et al., 1999). In general, the consensus in prior research is that managers care greatly about these earnings benchmarks and are willing to engage in costly earnings management strategies to achieve them (Brown and Caylor, 2005; Graham et al., 2005).

The aim of this paper is considering economic effects of privatization in Iran. This paper investigated the effect of privatization on economic growth and inflation in Iran. This paper is organized by four sectors. The next sector is devoted to research method. Sector 3 shows empirical results and final section is devoted to conclusion.

2. RESEARCH METHOD

This research has used the following models for considering the impact of privatization on economic growth and inflation in Iran at 1960-2009 period:

$$\dot{Y}_t = \beta_0 + \beta_1 \left(\frac{I_t}{Y_t} \right) + \beta_2 g_{L_t} + \beta_3 g_{Oil_t} + \beta_4 DUM + e_t \quad (1)$$

Regression (1) shows that the variables which affect economic growth (\dot{Y}) include the investment rate ($\frac{I}{Y}$), growth of labor force (g_{L_t}), oil revenue growth (g_{Oil_t}) and a dummy variable for years of privatization in Iran. In addition, this paper identifies the multiplication effects through the sign of β_3 .

This paper has used the following model for considering the effect of privatization on inflation in Iran:

$$\pi = F(\pi(-1), M, g_{Oil_t}, DUM) \quad (2)$$

Where π is inflation rate based on CPI price index, GS is government size or the share of total government expenditures in GDP, FBD is The foreign government debt, M is money-(M_2)- growth rate and DUM is a dummy variable for years of privatization in Iran. The dummy variable is 1 for years of privatization and it is 0 for other years.

This research has tested following hypotheses:

First hypothesis: privatization has a positive effect on economic growth.

Second hypothesis: privatization has a negative effect on inflation.

3. IMPIRICAL RESULTS

First, an estimation result of model (1) is shown by Table 1 as following:

Table 1. Estimation Results				
Method: Least Squares				
Date: 12/05/11 Time: 13:04				
Sample (adjusted): 1355 1386				
Included observations: 32 after adjustments				
Convergence achieved after 23 iterations				
White Heteroskedasticity-Consistent Standard Errors & Covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.042703	0.068023	-0.627772	0.5356
DUM	-0.009916	0.050778	-0.195271	0.8467
GL	-0.019148	1.853998	-0.010328	0.9918
I/Y	271714.8	131294.2	2.069512	0.0486
GOIL	0.156691	0.034436	4.550207	0.0001
AR(1)	0.433555	0.159371	2.720412	0.0115
R-squared	0.522767	Mean dependent var		0.027044
Adjusted R-squared	0.430991	S.D. dependent var		0.102595
S.E. of regression	0.077390	Akaike info criterion		-2.112552
Sum squared resid	0.155720	Schwarz criterion		-1.837726
Log likelihood	39.80082	Hannan-Quinn criter.		-2.021455
F-statistic	5.696142	Durbin-Watson stat		1.900789
Prob(F-statistic)	0.001121			
Inverted AR Roots	.43			

Results indicate that:

1. Privatization has not significant effect on economic growth in Iran at 1960-2009 period.
2. The share of investment in GDP has a positive effect on economic growth.
3. Oil revenue growth has a positive effect on economic growth.
4. Labor force growth has not significant effect on economic growth.

Table 2. Estimation Results of Inflation Model

Method: Least Squares				
Date: 12/05/11 Time: 13:15				
Sample (adjusted): 1345 1387				
Included observations: 43 after adjustments				
Newey-West HAC Standard Errors & Covariance (lag truncation=3)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.105830	0.030060	3.520668	0.0011
DUM	-0.041734	0.023415	-1.782314	0.0825
GOIL	-0.030892	0.019355	-1.596015	0.1186
INF(-1)	0.515914	0.147528	3.497052	0.0012
R-squared	0.400209	Mean dependent var		0.157903
Adjusted R-squared	0.354071	S.D. dependent var		0.106904
S.E. of regression	0.085919	Akaike info criterion		-1.982425
Sum squared resid	0.287898	Schwarz criterion		-1.818592
Log likelihood	46.62214	Hannan-Quinn criter.		-1.922009
F-statistic	8.674225	Durbin-Watson stat		1.876546
Prob(F-statistic)	0.000156			

Estimation results of Inflation model indicate that:

1. Privatization has a negative effect on Inflation in Iran.
2. Inflation with first lag has a positive effect on inflation.

Privatization in Iran can be made more effective by:

1. Making the policies of privatization transparent to the public so that they can easily go along with the program;
2. Establishing a fully competent advisory committee for privatization all over the country;
3. Transferring, as much as possible, the management of enterprises rather than their ownership;
4. Stabilizing the economic environment and encouraging private investment;
5. Maintaining a balance between a free and a centralized economy;
6. Considering the native culture of the country in all activities of privatization;
7. Considering the distribution of wealth according to the Islamic teachings with regard to privatization;
8. Selecting policies and procedures which are most effective in the specific case of our country following a full research on them;
9. Evaluating the performance of privatization up to this point and applying the findings together with the experiences of other nations to future plans;
10. Improving the management organization and methods of enterprises before taking steps to privatize them;
11. Trying more to create substitute jobs, employment insurance, training, etc., for those who become redundant in the process of privatization;
12. Reconsidering the use of other methods of privatization such as joint venture, private selling, management contracts, etc., rather than sticking only to the stock market;
13. Liquidating non-productive enterprises and using their properties in more profitable ways, instead of privatizing them;
14. Giving more consideration to the cooperatives in the course of privatization;
15. Keeping in mind that privatization is only one process of a large system and that it can be effective only if it keeps pace with other processes.

5. Conclusion

Privatization in Iran economy is one of the most economic subjects in academic debates. The aim of this paper is considering economic effects of privatization in Iran. This paper investigated the effect of privatization on economic growth and inflation in Iran.

This research has tested following hypotheses:

First hypothesis: privatization has a positive effect on economic growth.

Second hypothesis: privatization has a negative effect on inflation.

Estimation results indicate that there is not a significant relationship between privatization and economic growth. Also, privatization has a negative effect on inflation in Iran economy at 1960-2009 period.

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